



Daily Report

Supplement

Central Eurasia

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Central Eurasia SUPPLEMENT

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Political Issues

Pamfilova Criticizes Zhirinovskiy Conduct

964F0537A Moscow ARGUMENTY I FAKTY
in Russian Dec 95 No 49, p 3

[Interview with Ella Pamfilova by Galina Valyuzhenich, Aleksandr Sargin, and Veronika Sivkova, in Moscow; date not given: "A Dialogue That Did Not Take Place. The Falcon Did Not Fly In"]

[FBIS Translated Text] On Monday at 1730, a meeting was supposed to take place at our editorial offices between the leader of the Pamfilova-Gurov-V. Lysenko bloc, Ella Pamfilova, and Vladimir Zhirinovskiy. There were many television and print journalists there. At 1800, an aide of Vladimir Volfovich's called the editorial offices and, with apologies, informed us that his boss had been slightly detained. In another half-hour there was another call, advising us that Zhirinovskiy was already driving up. And after 30 more minutes, it was reported that the leader of the LDPR [Liberal- Democratic Party of Russia] would not appear at the meeting. It would be interesting to know with what such changeability in his promises is connected. If over an hour and a half he changed his decision three times, one can imagine how many times he will be able to do this once he gets into the Duma again. Or maybe he consists only of promises in the first place? But the questions had piled up—both the editorial offices and E. Pamfilova had them. And therefore, a conversation could not fail to take place....

[ARGUMENTY I FAKTY] Ella Aleksandrovna, what do you think, why did Zhirinovskiy not come?

[Pamfilova] I don't know; it is the election campaign now, and everyone has a lot to do. After all, he is not afraid of me, is he?! Although....have you noticed the fear in his eyes? *He has so many security guards. I, for example, do not have any. What do you need this for, Vladimir Volfovich? Why do you insist that deputies need to be issued weapons? Do your constant hysterics and shrieks not stem from a feeling of fear and of uncertainty in yourself? What scares you so much?*

[ARGUMENTY I FAKTY] Yes, really, one does not just have a lot of security guards for no reason. Probably, there is something that needs protecting. All those tours of his around the hinterlands, where he is met in Mercedes, to the strains of an orchestra....

[Pamfilova] I also do not understand why he drives around in two Mercedes, and with flashing lights, to boot. Recently I found myself in Astrakhan at the same time with him. Zhirinovskiy flew in, in his own airplane, rented out a theater and a cafe. *Where do such funds come from? Where does the money come from to*

hold birthday parties for 1,500 people? By the way, he invited me as well.

Why do you, Vladimir Volfovich, constantly try to sink a law on limiting deputy immunity, in which we also insisted that all declarations of deputies' income and property be published? Is this not a consequence of the fact that you have too much money? Those 11 billion rubles in your coffers: What is that—payment for what has already been worked out in the Duma, or an advance for the future?

[ARGUMENTY I FAKTY] But you also in your time were engaged in a struggle against privilege and corruption, and then abandoned it.

[Pamfilova] No, I never abandoned it, and I do not plan to. We now have with us in our association A. Gurov, who first declared that there was a mafia in the USSR and who created the Organized Crime Directorate within the Ministry of Internal Affairs. In 1992, he was dismissed as being inconvenient.

Now those at the top do not want to deal seriously with these issues. Therefore, the fight against corruption is taking the form of information on personal accounts. There is compromising material on many people. But it is used not to bring a criminal case, but so as to be able to manipulate them more easily.

The law ought to be the same for all. And the higher you are, the higher your responsibility to society, to the authorities, before the law. And that same high demand should begin from the very "top." And with oneself. *Is that not true, Vladimir Volfovich? You are always announcing that you are in profound opposition, that the authorities are such-and-such....* But allow me to disagree with you. I believe that your faction is very convenient and one of the most loyal to the current authorities, almost a tame faction. If one looks realistically at the results of your voting, that is the way it is. You supported the unleashing of war in Chechnya; you were wholly on the side of the authorities. You always supported your friend Grachev. You supported the antisocial budget. So that means you support this government.

[ARGUMENTY I FAKTY] But some people blame precisely you for the fact that a pension crisis has burst forth.

[Pamfilova] I know about that. But I have nothing to make excuses for. While I was minister, we did not have this kind of outrage. I warned the president a year and a half ago of a pension crisis. It could have been averted. And we proposed a multitude of variants. How many trillions are now in Chechnya? Experts say that it has come to more than 30.... They find the money for

the most absurd projects, while the old folks they forget about. It does not matter to me what political views an old person holds if he is suffering, if he is having a hard time. In any case I am obligated to, and I will, help him. *But why did your faction, Mr. Zhirinovskiy, allow itself in such a situation to vote for a law on a special pension for deputies, giving itself a pension of a million and a half? So it turns out that you have a double morality?*

[ARGUMENTY I FAKTY] Ella Aleksandrovna, Zhirinovskiy constantly asserts that women have no place in politics. Your speeches are always so emotional.... Is this a method of political struggle or your weakness?

[Pamfilova] It is my weakness and my strength. A politician should sympathize, should empathize, with what is happening. One's soul sometimes weeps more. This has not hindered me, but has helped in the most incredible, absolutely hopeless situations. But I am against political associations based on gender.

[ARGUMENTY I FAKTY] Could Zhirinovskiy at some time shed a miserly masculine tear?

[Pamfilova] I think that there are different kinds of tears. It is hard for me to say about a "miserly masculine tear," because another's heart is a mystery. It is hard to imagine. Probably, he will cry if he does not get into the Duma or the presidency.

[ARGUMENTY I FAKTY] What will you do if you do not get into the Duma? To whom are you prepared to give your votes, if you feel that you are losing?

[Pamfilova] I will not give my votes to anyone. I am interested in triumphing myself. I do not see a single person who could do what I will do. My niche is not occupied by anyone. But do you have one, Vladimir Volfovich?

KRO Initiative Impact Analyzed

964F0539A Moscow ARGUMENTY I FAKTY
in Russian Dec 95 No 49, p 7

[Article by Aleksandr Simonov, under the rubric "Elections-95": "Russian Politics Is in Turmoil"]

[FBIS Translated Text] Russian political circles are excitedly discussing the unexpected initiative the Congress of Russian Communities [KRO] suddenly brought out at the eleventh hour of the election campaign. As far back as the KRO's program congress in mid-November its delegates decided to initiate a national referendum on the "main issues of Russia's future." It was thought at the time, however, that the rather cumbersome procedure envisaged by the law on referendum would stop Skokov, busy storming the State Duma. Nonetheless,

he did register in the Moscow city electoral commission, and so the process got started.

The proposal is to make "increasing the well-being and longevity of the population" the main criterion of the government's work. In addition, it is proposed to constitutionally define the Russian Federation as a "Union of Peoples of Russia."

KRO leader Yuriy Skokov said that he considers such a referendum even more important for himself than success in the State Duma elections, since Russian citizens' positive reply to the proffered questions will let the KRO create a real mechanism of public control over the actions of state authorities.

It is easy to see that questions are selected in such a way as to directly affect each citizen of Russia. Therefore, it is quite natural that the KRO's unexpected initiative, on top of that announced at the peak of the election campaign, got quite a response (even KOMMERSANT, normally quite critical of the KRO, called the question of linking appraisal of the government's performance with the population's standard of living the "question of the week").

The Public Opinion foundation conducted on 18 November a sociological survey of a national sample of 1,360 persons to sound out people's attitude to the referendum proposed by the KRO. According to this survey's data, 84 percent of the Russian population believe it necessary to put the Russian authorities under greater control by the people. Seventy percent of the respondents would participate in a referendum on the question of amending the RF [Russian Federation] Constitution to envisage the possibility of forcing the government to resign if it does not succeed in stopping the decline in the Russian population's standard of living. Also, 67 percent would vote for incorporating such an amendment in the text of the Constitution. And 83 percent believe that the subsistence minimum should be legislatively formalized.

Seventy-five percent would take part in a referendum on the question of toughening the measures to combat crime; with this, 74 percent support the broader use of capital punishment, and 17 percent are against capital punishment.

The reaction of Gennadiy Zyuganov, head of the CPRF [Communist Party of the Russian Federation], whose leadership considers the KRO its main rival in the upcoming parliamentary elections, was quite cautious. He said that in order to define the CPRF's final position on the referendum "we must first thoroughly review and discuss the issue." He also remarked that "patriotic forces have already put forward similar initiatives

in the past." Interestingly, at exactly the same time another CPRF leader, Kemerovo Oblast Legislative Assembly Chairman Aman Tuleyev, resoundingly supported Skokov's referendum initiative. Tuleyev believes that nobody has the right to lower the population's standard of living, and if this level goes down even a little, the government must resign. Apparently, the schism between the communist bloc's leaders is further proof supporting the latest rumors about serious disagreements in the top echelons of the CPRF.

St. Petersburg Mayor Anatoliy Sobchak—one of active supporters of Chernomyrdin's Russia Is Our Home [NDR] bloc—said, naturally, that he is firmly against holding a referendum. Sobchak fears that a provision that will make the government's stay in power strictly dependent on the population's standard of living can be used "as a political truncheon to clobber a political opponent." For Russia, Sobchak believes, "the important thing is not to make any sharp moves," otherwise "we will again enter a period of instability."

Another representative of the NDR government bloc, Vladimir Ryzhkov, while acknowledging that defining the question of the population's standard of living as a criterion of the government's performance is correct, nevertheless pointed out that organizing a referendum would be "disastrously expensive for the country."

As to the opinion of liberal political forces, Vladimir Braginskiy, press secretary to YABloko leader Yavlinskiy, said that the movement has no interest in the idea of holding a referendum. He sarcastically remarked that the meaning of the questions proposed by the KRO tempts one to add one more question, namely: "Do you believe that the first letter in the alphabet is A and the last one is Z?"

Democratic Choice of Russia, PRES [Party of Russian Unity and Accord], and Women of Russia under various excuses refused to comment on the KRO initiative. Apparently, the referendum idea caught these parties' leaderships by surprise. Only Common Cause leader Irina Khakamada was very unequivocal. She called the KRO initiative "irresponsible and unacceptable." Holding such a referendum, in Khakamada's opinion, "can undermine the current political system, which in turn is fraught with the danger of civil war."

LDPR [Liberal Democratic Party of Russia] representative Viktor Filatov took a somewhat unexpected position. Despite the fact that relations between this party and the KRO leave something to be desired, to put it mildly, the press secretary overall appraised the idea of holding a referendum positively. He did, though, sharply criticize General Aleksandr Lebed, saying that the latter personifies "everything that is worst in the military."

Filatov also found it necessary to add that "many parties today have beautiful programs that could be framed and hung on the wall, but they are all the same." The LDPR secretary apparently believes that only his party has a program that is "not the same." Neither can one leave out the opinion of the veteran of Russian politics, Arkadiy Volskiy. He believes that the referendum proposed by the KRO is not needed. In his opinion, the result of an affirmative reply at the referendum will be that not a single government will be able to stay in power in Russia because "bread prices will keep rising no matter what."

Youth electoral bloc "The Cusp Generation" in its statement fully supported "Skokov's initiative" (while avoiding proclaiming solidarity with the KRO). The bloc's leaders justify their position citing the fact that the needed amendments to the Constitution can be made only through a referendum.

It appears that the leader of another sociopolitical movement—Sergey Redko of People's Policy, who is also an MZhK [expansion unidentified] Iskra activist—is in agreement with this opinion. He believes that "the government today is not accountable to anyone, and therefore bureaucrats leading the state toward a disaster are confident of their immunity." Sergey Redko believes that through a referendum, amendments could be made to the Constitution that would give the Duma the ability to form the government. Redko also pointed out that he supports the healthy idea, not the KRO. "This is not a vote of confidence in Skokov," says Redko. "We support a concrete initiative. The current Constitution guarantees us rights that are still not realized because the existing bodies of authority are not accountable." Especially, a Redko's opinion, local bodies of authority.

RF State Duma Deputy Vyacheslav Nikonov said the following on the subject of a referendum: "I have to say that the Constitution definitely ought to be amended. The KRO's proposals are somewhat demagogic, however, since there is a host of methodologies for evaluating the population's standard of living. But even if such a decision (to hold a referendum—A.S.) is made, this will create a new precedent in international practice, since in civilized countries the government is accountable to the parliament and its existence depends on the will of the majority in the parliament. So if the situation in the country worsens, the government resigns at the parliament's decision, not at the whim of statistics."

As we can see, Russian politicians' reaction to the KRO's initiative turned out to be varied but overall rather guarded. Representatives of some movements altogether declined to answer the question of their attitude to the referendum idea, while a clear difference

of opinion was observed between the leaders of the same party—the CPRF. This indicates once again that the KRO initiative was a complete surprise to everyone and has made Russian politicians nervous.

The KRO intends to begin collecting signatures for the referendum right now, without delay. This is not an easy task, since the Constitution says that 2 million such signatures must be collected. KRO leaders are confident, however, that they will pull it off, since the questions they propose to put to a referendum vote are close to the heart of every Russian citizen. As the prospect of holding a referendum proposed by the KRO begins to acquire an increasingly clear shape, all political forces will have, one way or the other, to spell out their position on the proposed questions. Which may cause splits and the most unexpected political alliances during the last weeks of the Duma election campaign.

Irkutsk Poll on Voting Preferences

964F0542A *Irkutsk VOSTOCHNO-SIBIRSKAYA PRAVDA in Russian 6 Dec 95 p 1*

[Unattributed report: "Yabloko Ahead"]

[FBIS Translated Text] The Sociology Laboratory of the Irkutsk State Economic Academy continues to study the electoral behavior of the population of the city of Irkutsk (see VOSTOCHNO-SIBIRSKAYA PRAVDA of 14, 21, and 28 November 1995). A random poll of 669 respondents in five administrative districts of the city was conducted on 29 and 30 November. The city's residents were asked three questions:

I. Were the elections to the State Duma of the Federal Assembly of the Russian Federation to be held today, for which party, movement, or bloc would you cast your vote? Some 69.7 percent of respondents answered this question (as percentage of the number of respondents who have settled upon their choice):

- | | |
|---|------|
| 1. Yabloko association..... | 14.8 |
| 2. Communist Party of the Russian Federation..... | 10.3 |
| 3. Russia Is Our Home movement..... | 10.3 |
| 4. Women of Russia movement..... | 4.9 |
| 5. Liberal Democratic Party of Russia..... | 2.8 |
| 6. Beer Lovers' Party..... | 2.5 |
| 7. Russia's Democratic Choice—United Democrats..... | 2.4 |
| 8. Workers' Self-Management Party..... | 2.2 |

The other parties, blocs, and movements obtained less than 2 percent of the respondents' vote.

Could not say..... 30.3

II. Whose opinion do you heed most when deciding to vote for a special candidate for deputy?

The responses were distributed as follows (percentage):

- | | |
|--|------|
| 1. To the opinion of people well known in the country... | 9 |
| 2. Neighbors..... | 2.5 |
| 3. Fellow employees..... | 3.5 |
| 4. Relatives..... | 10.1 |
| 5. Friends..... | 7.4 |
| 6. Journalists..... | 5.3 |
| 7. Decide for myself..... | 61.2 |
| 8. Other responses..... | 1 |

III. Was your choice influenced by the advertising campaign that has begun?

The responses were distributed as follows (percentage):

- | | |
|-----------------------|------|
| 1. Yes..... | 26.2 |
| 2. No..... | 55.6 |
| 3. Could not say..... | 18.2 |

Number to call of the Sociology Laboratory of the Irkutsk State Economic Academy: 33-52-51.

Party Financial Resources Compared

964F0534A *Moscow ARGUMENTY I FAKTY in Russian Dec 95 No 49, p 2*

[Article by Andrey Uglov under the rubric "Money": "The Rich and the Poor in Politics"]

[FBIS Translated Text] Only a few days remain until the Duma elections. Parties and movements are throwing money right and left. Television, newspapers, advertising pins, and posters—it all takes millions and billions. And what is interesting—the money is there. Of course, one becomes curious—who has it, and how much.

The Poor

There are some obvious paupers on the list of recipients of money—those who have settled for only the 80 million rubles [R] legally due from the state. Among them are A. Rutskoy's Derzhava, K. Borovoy's Economic Freedom Party, B. Polevanov's For the Motherland!, Sv. Fedorov's Workers' Self-Government Party, V. Tyulkin's and V. Anpilov's Communists, Stanislav Govorukhin's Bloc, N. Ryzhkov's Power to the People!, and G. Popov's Social-Democrats. These parties, while

wishing to make Russia rich, apparently could not even take care of themselves....

The Rich

On the opposite pole are the very rich. State support for them is like a buckwheat shot to an elephant. Aid comes from sponsors. V. Zhirinovskiy's LDPR [Liberal Democratic Party of Russia]: R10.705 million. It has 62 "legal entities-sponsors," who have contributed about R5 billion. Individual sponsors contributed another R1 billion. The KRO [Congress of Russian Communities] with Yu. Skokov and General A. Lebed also has accumulated quite a kitty. Their account holds about R5.3 billion, of which R4.36 billion is their own funds.

Neither is Ye. Gaydar's Democratic Choice of Russia all that poor. He has "scraped up" almost R4 billion. Contributions comprised only R4 million of this. The rest is the party's own money.

In fourth place in V. Chernomyrdin's Russia Is Our Home. There is R3.3254 billion in its account. Gazprom is not listed among the contributors.

YABloko came in an honorable fifth. There is almost R2 billion in its purse. Among the names that pop up most frequently among their sponsors is Suprimex (remember, someone planing wood in the advertising clip) in different variations. There is also a lyceum for deaf children (R87.4 million).

Unexpectedly, Women of Russia is sixth with R1.8274 billion. Among the contributors: the All-Russia Society for the Disabled and the AO [joint-stock company] Russian Steel. Who would have guessed?

And finally, seventh is the one who wants us to vote for Ivan, that is, Ivan Rybkin's Bloc. The speaker has scraped up a whopping R1.4674 billion.

The Middle Class

Of course, we should not forget to mention the Communist Party. There is "only" R770.6 million in its account. Of which R435 million is its own money and R142 is contributions from private sponsors. This is second only to the LDPR. Among the largest contributors: Euromet Bank.

Another assumed favorite of the upcoming elections—the Agrarian Party of Russia—has R405.5 million in its coffers. Interestingly, the Agrarians have received no contributions whatsoever from individuals. But the AOZT [closely held joint-stock company] Zavety Lenina did contribute R5 million. The rest of the sponsors are former state organizations of the Roskhléproduct type, converted to joint-stock holding by the Agrarians themselves (R87 million)..

Of course, the quantity of billions of rubles committed to carrying out the State Duma elections is impressive: R34.3419 billion. But if we divide this amount by Russia's whole population—approximately 150 million—we get an unexpected result.

The Sum of It All

All the parties and movements, begging the electorate to let them into the Duma, are spending only R229 per person. Nothing else is as cheap in Russia these days....

Journalist Bogdanov on Bid for Duma Seat

964F0538A Moscow ARGUMENTY I FAKTY
in Russian Dec 95 No 49, p 3

[Interview with Vsevolod Bogdanov, chairman of the Journalists Union of Russia, by ARGUMENTY I FAKTY correspondent V. Viktorov; place and date not given; under the rubric "Campaign Tour": "Why Does the Fourth Branch Need the First One?"]

[FBIS Translated Text] Vsevolod Bogdanov has headed the Journalists Union of Russia for more than three years. During these extremely trying times for the press, the union became a prominent force in society.

Previously sovereign journalist associations of Moscow, St. Petersburg, Tatarstan, and Bashkortostan joined it. The Russian Journalists Union recently became a member of the International Federation of Journalists and began issuing a universal professional card. One would think: What more is there to be desired in our times? Now, however, the union's chairman is running for a State Duma seat in Arkhangelsk Oblast.

[Viktorov] Why did you, Vsevolod Leonidovich, a member of the fourth estate, also succumb to the temptation of an ordinary parliament member mandate?

[Bogdanov] The expression "fourth estate" is still a figurative notion in our country. The press, which "the great leader" even before the revolution called "a wheel and a cog in a single social-democratic mechanism," has not acquired new substance with the repeal of the party-soviet regime. While the "comrades" ruled the press by command-administrative methods, the "gentlemen" do so by economic levers.

Legally, our press is emphatically free, but in economic terms it is absurd: The greater the circulation, the greater the losses. Practically all the large newspapers operate in the red. The subheads in newspapers' names—such as "free" or "independent"—reflect more wishful thinking than reality.

[Viktorov] Are you trying to say that our newspaper too is run by someone mercenary and invisible?

[Bogdanov] ARGUMENTY I FAKTY is a rare exception. In general, however, slogans have changed, new masters of the country have taken over the offices and state dachas, but the practice of brainwashing readers in favor of those on the sunny side of life has remained.

The chief, principal goal of the journalist community is organizing a normal market for the press, where better-quality, more popular publications can achieve economic success.

Naturally, in order to realize this goal we need a package of laws. Finally, only a few days ago two important acts on state support for the press and book publishing were adopted. Journalists have not yet felt any practical results from this, though.

[Viktorov] So you want to strengthen the power of the fourth branch by being part of the first?

[Bogdanov] I would put it this way—the power of public opinion, which the independent press should express.

[Viktorov] But is the process gaining ground? I think that, unfortunately for us as journalists, and to the detriment of society, the press is losing credibility in the eyes of many people.

[Bogdanov] Yes, there was a time when people had an unshakeable belief in the justice of the printed word. Moreover, newspapers were considered bulwarks of justice. When people could not find justice in the police, the courts, or the oblast party committee, they turned to the newspapers. And through journalists' efforts, good prevailed over evil. Now we receive few letters, and even fewer make it onto the newspaper pages. I witnessed recently how a certain irritated minister asked ARGUMENTY I FAKTY's editor in chief why he had published a letter under the rubric "From the Other World," sent by a man who has no home, work, or benefits. There cannot be many people like that, he said.

In reality, there are not just many—there are a great many such poor souls. Millions of orphans, millions of hungry old people, millions of workers who have not been paid for six months. Nobody even counts them. This is more proof that public opinion in our country is expressed less than fully, one-sidedly, and that situation has to be changed.

[Viktorov] Why did you choose the northern route to politics?

[Bogdanov] For starters, I was born in the North, in Arkhangelsk Oblast. These are my home parts, which formed me as a person. But there are also powerful objective reasons. These seemingly deserted outskirts are of tremendous importance for the country. The North

contains fabulous riches. Sensibly used, the resources of Arkhangelsk Oblast alone could be enough for the whole state: timber, oil, and the recently discovered diamonds, too. Residents of Northern parts contribute per capita three times more to the national product than the statistical average resident of Russia. Except that this does not do any good for the people working there. They contribute three times more, but earn about the same practically across the board. All the money flows to Moscow and is lost irretrievably for the North—it is spent on the war in Chechnya, on maintaining the state bureaucracy, and settles in the pockets of new Russians. Forget investment in the region's economy—it would be nice to at least get wages paid. Directors, governors, and mayors travel to the capital asking for the money pumped out of their own land, to no avail. The barbaric, predatory attitude to the natural riches which was typical of the old, Soviet leadership has turned into undisguised plunder.

[Viktorov] People in the North are very patient—southerners would have exploded a long time ago.

[Bogdanov] These are territories where the moral, spiritual potential of Russia has been preserved. The North is rich, but it also is harsh. It compels a person to be kind, hard-working, and honest. If you violate the commandments, you perish. Over there you do not earn points by defrauding a neighbor, or by cheating in a market trade, or by trickery, swindling, or deception. All of this is called by its true name—low-down behavior.

If a person is willing to live honestly and conscientiously, he is accepted like one of the family. I know many Tatars, people from the Caucasus, and Jews who consider themselves northerners. Nobody taunts them. People laugh at show-offs and cheats.

The lessons of the North get imprinted in your memory for life. I remember when I was a child, my grandmother, who had two sons fighting in the war, helped German settlers—gave them barley flatcakes and bread, if there was any at all. I visited the Germans, drank kisel, which they learned how to make from the Northerners, and wondered: These are people of the same nation as the Nazis, so why is my grandmother so kind to them.

[Viktorov] Can you sum up your trip?

[Bogdanov] So many extremely urgent issues were raised: Moscow wheelers-dealers' attempts to sell the local pulp and paper plant; the reasons the merchant marine port is dying; a flotilla of American nuclear submarines that have taken up permanent station in the Kara Sea, and the immediate need to build a rail line....

We have good allies—scientists, governors, the military. The Trade and Industry Chamber functions very successfully. I am sure that with an honest and interested attitude, the North will become an attractive place to live for many Russians.

Regional Climate for Elections Viewed

964F0532A *Novosibirsk VECHEARNY NOVOSIBIRSK in Russian 5 Dec 95 p 2*

[Article by Vladimir Kuzmenkin: "Political Geography Suggests...."]

[FBIS Translated Text] The analytical administration of the president of Russia has prepared and published a reference work entitled "Russian Regions on the Eve of the 1995 Elections." As its authors write, it has only one purpose: "To help state and public organizations prepare for and conduct the parliamentary elections of 1995." The book, which was put out by the Yuridicheskaya Literara publishing house, contains the main socioeconomic statistics and information on all the elections that have taken place since 1989 in each of the regions of Russia. Let us look at the section entitled "Novosibirsk Oblast"....

The area makes up 1.04 percent of the territory of Russia; it has 30 administrative rayons and seven cities under oblast jurisdiction. The population (estimate for 1995) is 2.749 million, which is 1.85 percent of that of all of Russia. The share of the industrial output produced here is 1.13 percent of the overall Russian volume, and of agricultural output—2.26 percent.

About the electorate: The proportion of city dwellers is 74 percent. In 1993 we had 68,500 students, or 245 per 1,000 residents, and on average for Russia this indicator is 171. There are about 650,000 pensioners in the oblast. The proportion of individuals with a higher education is 11.6 percent. The number of voters is 1.969 million. But their activity decreases from one election to another: In 1989 almost 81 percent participated in the election, and in 1993 only 51 percent. It is significant that the indicator of voter activity here is 3-5 percent less than in the whole of Russia in each of the elections. Traditionally the degree of confidence in President Yeltsin and his policy in all has also been lower by several percentage points than the analogous indicators for all of Russia. The Constitution was barely approved in our republic: 50.7 percent for it, in Russia—55.2 percent. In the last elections to the State Duma in the general federal election district our voters were significantly more active than the average for Russia in support of Yabloko (12.2 percent instead of 7.9) and the Liberal Democratic Party of Russia (25.6 percent instead of 22.9), and there was a plus sign for the Agrarian

Party (8.7 percent instead of 8) and the Democratic Party of Russia (7.3 instead of 5.5). Russia's Choice, the Communists, the Party of Russian Unity and Accord, and even Women of Russia did not reach the indicators in Novosibirsk Oblast that they reached on the federal level.

Only one conclusion can be drawn from all these figures: On 17 December the voters will vote the way they traditionally do, that is, the politicians who are personally associated with the policy of the president or with parties and movements called "democratic forces" are doomed to failure. Therefore the majority of observers are convinced that on 18 December Ivan Indinok, who was appointed by the president, will become the governor elected by the people, "party sympathies" will be divided among Yabloko, the Communists, and the Congress of Russian Communities, and the deputies to the State Duma will be well-known politicians who do not use the word "reform" in a positive context in their speeches. In any case, this is what the figures tell us....

Irkutsk Governor on Upcoming Elections

964F0516A *Irkutsk VOSTOCHNO-SIBIRSKAYA PRAVDA in Russian 5 Dec 95 p 2*

[Open letter to the voters by Yu.A. Nozhikov, governor of Irkutsk Oblast: "Federalism Will Unite Us"]

[FBIS Translated Text] **To the voters of Irkutsk Oblast**

Esteemed residents of the Angara region!

I appeal to you on the eve of an important event in Russia's life—the elections of deputies to the State Duma of the Russian Federation. The results of the elections could improve our life or disrupt society even further and disappoint us once and for all in government by the people. I take personal responsibility for what kind of atmosphere takes shape in the oblast during the election campaign, and for how free and precise the voters' choice will be.

I do not intend to campaign for one party or another, for one candidate or another. At the same time, for me as governor and a member of the Federation Council, it is not a matter of indifference who receives mandates to the State Duma. The deputies will play no small role in the formation of the political climate within the oblast, and also in the resolution at the federal level of the legal, economic, and social problems of the region. Therefore, the electoral campaign should not become just one more fruitless battle among "Reds," "Whites," and others. One would very much like to see it take the shape of a collective and constructive discussion on how to overcome our difficulties. If we all—parties, public

associations, production collectives, the press, municipal and oblast bodies of power—can impart just such a tone to the campaign, this will become one guarantee of the selection of candidates who are capable of creation, of resolving complicated problems of the region and of the country as a whole.

This is why I am obligated to tell the residents of the oblast about what kind of questions, in my view, the parliamentarians of the new convocation will have to resolve. I hope that this will help voters in the time remaining until 17 December to assess the candidates for deputy, keeping in mind their capabilities and their ability to solve problems. Of course, the oblast and Russia have no small number of problems, but if one attempts to sum up and express the main thing, then in my view, this is the carrying out in practice of the principle of federalism. It is precisely federalism that could become the idea that will unite all the healthy political forces and all healthy-minded people.

I.

After the adoption in 1993 of the new Russian Constitution, krais and oblasts achieved a certain leveling of rights with republics: their own legislation appeared, a fairly large degree of economic independence was received, and the attributes of statehood were acquired. And yet, chiefly in this period central power has been strengthened, and distance has been maintained by the federal bodies of power from the interests of the regions, local self-government, and enterprises. This happens both on the basis of deficiencies inherent in the Constitution of the Russian Federation and of direct violation of its norms. In the mass media, we are presented with an allegedly existing desperate battle between the State Duma and the Government of the Russian Federation in the interpretation of reform strategies. **In actual fact, there is unity in the interests and actions of the central political, administrative, and financial circles.** However different the programs of the political movements may be, however many mutual accusations they might contain, they come together on one thing: It is not in the localities but in Moscow that it must be decided how to live from now on. I am seriously afraid that after the elections to the State Duma, we may expect an even tougher course on taking rights away from regions, self-government, and enterprises, and on the further centralization of the country's financial resources. In the next four years the center will no longer have the need to win the votes of the electorate; agencies at the federal level will close in on the idea of concentration of power, and the administrative-command system, which has been so criticized, will turn once and for all into an administrative-financial system.

II.

The hierarchy of power, including executive power, of course, should exist and be stable. But today there are operating in Irkutsk Oblast 58 federal structures, which have enveloped in their authority all aspects of life. At the same time, they bear practically no responsibility to the population and "according to regulations" must answer for their actions only to the center. There have been practically no cases where citizens who have found themselves in difficult circumstances have turned with their problems to the federal institutions. Even in the stories of the notorious MMM, RDC, and so on, all the wrath of the deceived parties was directed at the local authorities. People take all their misfortunes to bodies of local self-government, the directors of enterprises, the trade unions, the oblast administration, and the Legislative Assembly, although the local and oblast agencies are in no position to solve them if they are not given (according to the Constitution!) powers in the area of property and finances. **Therefore, one pressing task is to change the correlation of central and local power structures in favor of the latter.**

The current State Duma did not resolve the problem of the **unscrupulous activity of many financial institutions in attracting the resources of the population, of deceiving them with high interest rates and then—bankruptcy.** The deputies of the new convocation must pass laws that would allow for strengthening control over entrepreneurial activity on the financial market, including over the attraction of the monetary resources of the population, and that would help bring about state protection of investors and their interests. At the same time, it should be stipulated that the heads of financial institutions are to be responsible for the results of their activity.

III.

The Constitution proclaimed the principle of joint delimitation of state property between the Russian Federation and its components. This is a very progressive position, for which we made an ardent stand back during the process of preparing the Basic Law. **But it is precisely in questions of property that the ideas of federalism are violated often as never before, depriving our statehood of its economic basis.**

To some of the components of the Federation, state property was transferred to the extent of almost 100 percent, but in other territories the central authorities define all state property as federal, and its sale takes place without the participation and control of the population of the regions. This becomes fertile ground for corruption among the Moscow personnel and their

groups, and it creates inequality in the rights of the individual to the fruits of his labor.

Decisions on the sale of packets of stock of the oblast's largest enterprises, which are viewed as federal property, are made by the federal authorities without the participation of the territory and without consideration for its specific features. But after all, these enterprises have enormous social significance for us. Of the 1,931 state enterprises on the oblast's territory, only 398 have been transferred to its ownership. Practically everything depends on the federal ministries and departments, without whose consent the question on transferal cannot be decided in the affirmative. At the same time, decisions were made by the federal agencies without the participation of the oblast on relegating the largest enterprises to exclusively federal ownership. Such a procedure of delimitation actually secures a monopoly and slows down the progress of economic transformations.

One cannot agree to the sale of state property taking place without the control of the popularly elected oblast bodies of power. This infringes first of all upon the interests of the residents, since at the same time that portion of the property that ought to belong to the oblast is also being sold. It was precisely to prevent this that was the purpose of my initiative on the elaboration of a law prohibiting the sale of common, nondelimited property without the oblast's participation. It was passed by the oblast's Legislative Assembly. An oblast law on the administration of state (including federal) property on the territory of the oblast should soon appear. This draft law will give us the legal basis for effective administration of oblast property and participation in the administration of federal property.

The federal authorities are on the way toward reacting correctly to our steps on the administration of property. One would like to see to see such deputies elected to the State Duma who would with their political authority promote the culmination of this work—the conclusion of a package of agreements between Russia and the oblast.

IV.

The next circumstance that makes the coming to be of federalism more difficult is the lack of coordination of financial, budgetary, and tax policy between the center and the regions, and also among the regions. Toughness in the financial system in conditions of inflation is necessary, but not to such an extent that the Central Bank of the Russian Federation and a number of bank-"favorites" conduct in Moscow up to 70 percent of all financial operations. The regional banks are more closely tied to production; they are better controlled. However, they do not have the volume of state

credits that the capital's banks do, and therefore, they cannot actively further the development of enterprises. Today, according to expert assessment, from 70 percent to 80 percent of the financial capital is concentrated in Moscow. Of the 2,500 operating banks, Moscow accounts for about 2,000. Of the 100 largest banks, 97 are also located in Moscow. A capital administrative-finance oligarchy is forming, which is retarding the development of the country's economy.

Federal laws are urgently needed to expand the rights of oblast and local bodies of power in deciding questions on the creation and activity of the banks that are located on their territory. Otherwise, the financial flows will be uncontrolled, or more accurately, under the control of Moscow only.

The basic principles of the tax system according to the Constitution of the Russian Federation are an object of the joint management of the federal and territorial organs of power, but not once as of yet has the Federal Assembly cleared these principles with the Legislative Assemblies of the territories. Unfortunately, this has escaped the attention of the deputies of the current State Duma.

The modern tax system does answer well to the principle of federalism. It is necessary legislatively to secure a procedure for establishing general principles of taxation and collection. And truly, on the whole, the tax system requires radical changes, at the basis of which should be a reduction in direct taxes on enterprises and an increase in taxes on the wealthy segment of the population. This could become a realistic step in the protection of the poor segment of the population, which still accounts for the majority here.

The budget structure at all three levels (the federal, the oblast, and the local) is confused and incomprehensible not only to the population, but even to the deputies, mayors, and governors. And the incomprehensible is rarely carried out. For example, it is not clear how much money is collected in the budget, off-budget, and other coffers on the whole, including revenues from state securities, and what portion of this amount goes for state expenses in the social sphere, for provision of pensions, federal programs, and into the territorial and local budgets. One would hope that the deputies of the new State Duma would simplify the tax and budget legislation, would make it more comprehensible and therefore possible to carry out. Then the regions will not be pushed aside from working out financial state policy. The center will not be able unilaterally to change the budget and tax system. Thus, the basis for serious political conflicts will be removed.

V.

For the formation of power that is capable of working and responsible to the population, it is necessary immediately to create legislation on the civil service. It is beginning to be born, and the general principles of the organization of the civil service have been defined. But there is the danger that the legislation could begin to develop in the direction of excessive centralization of the civil service. In such an event, the influence of the popularly elected governor and Legislative Assembly of the oblast on the oblast's bureaucrats will be significantly limited. This cannot be permitted. In this as well, the principle of federalism must be sustained.

The separation of state power and business is very pressing. Recently there have been created such major monopoly structures as the Russian joint-stock companies Gazprom, Lesprom, and Yedinye Energosistemy Rossii [Unified Energy Systems of Russia] (RAO [Russian joint-stock company] YeES Rossii), which began to lay claim to the implementation of state powers.

For example, RAO YeES Rossii continually insists on being granted the right, on a status equal with federal organs of executive power—the Ministry of Economics and the Ministry of Fuel and Energy of the Russian Federation—to regulate tariffs and to determine the wholesale market of electric power. Not receiving the suitable rebuff from the appropriate government structures, the RAO YeES Rossii continually blocks our unique Irkutskenergo system from entering the wholesale market. In addition to purely administrative methods, legal methods are also used in order, through a series of arbitrage processes, to block direct deliveries of electrical power from the Irkutskenergo system not only into Mongolia, but even into the neighboring Republic of Buryatia. The RAO YeES Rossii is undertaking desperate attempts in order to remain the only wholesale purchaser and seller of electrical power in the country. In order to rule out such cases from our economic life, it is necessary to prohibit state workers from engaging in commerce, and business organizations from carrying out state powers.

It is not fortuitous that I speak in such detail about this problem. The opposition in power engineering will last for many years; it will require a very great deal of effort from us, and I want the future State Duma deputies also to take part in the solution of this problem.

I have attempted to name the main tasks without the resolution of which it will be difficult for the organs of power in the localities to govern their territories effectively, and to achieve an improvement in life. I

ask you to assess the candidates for deputy according to their abilities to understand these tasks and to resolve them. I very much hope that the election campaign will not separate us, but unite us.

[Signed] Yu.A. Nozhikov, governor of Irkutsk Oblast

YABloko Presents Election Program

964F0598A Moscow MOSKOVSKAYA PRAVDA
in Russian 7 Dec 95 p 2

[Report by Dmitriy Semenov: "Grigoriy Yavlinskiy: 'We Reject Politics Based Solely on the Desire To Win Power'"]

[FBIS Translated Text] It seems that all the factions that gained seats in the parliament two years ago were clearly aware that Russians should live better. Nevertheless, no serious improvement has taken place over the past two years! Perhaps different political parties interpret the notion of a "better life" differently? No, it does not look that way.... Why then have all more or less solvable and very promising proposals presented by democratic Duma factions and built on the conclusions of competent economists been "shot down" by the Duma's left majority? Was it not because nonimplementation of very important laws is a "valuable" contribution to further destabilization of the situation in the country? And destabilization—as history tells us—creates the most favorable situation for the left to take over power.

Yes, they promise a lot. But the only free cheese is in a mousetrap—using this worn-out cliché again and again. I understand: You are scared by the fact that the democrats' election platform will force us to work a lot, and hard, to implement it. But, gentlemen, one of the slogans of our Bolshevik past was: "He who does not work does not eat."

Last Tuesday at Scientists House on Prechistenskiy Boulevard the YABloko bloc's leadership came to present to the public and members of the fourth estate the main planks of their election program. If we accept it as given that brevity is the sister of talent, those in the presidium were undoubtedly a talented bunch. I know from personal experience that if a speaker can present his point in three to five minutes, what he is talking about is realistically implementable.

YABloko's main goal, according to its leader Grigoriy Yavlinskiy, is to implement the ideas, knowledge, and experience that have accumulated over the past five years. Or, to be more precise, from the day it became impossible to implement the 500 Days program. Of course, all the shortcomings and miscalculations of the

past few years were taken into account in preparing the plan for pulling out of the economic crisis.

"The main cause of the current situation is the economic policy of the government: It begets poverty every day," said Mr. Yavlinskiy. "At the same time, the government does not find it necessary to at least explain its actions to society. I can offer you an example: What can one say about a government that this year did not find enough funds to print school textbooks but has enough money to conduct military operations for 10 months?"

YABloko's election platform is an integrated system, which includes aspects of social, domestic, and foreign policy, investment programs, and others. During this meeting, the main planks of the program were presented to us, journalists, by those directly responsible for drafting them.

Vladimir Lukin, a former diplomat, took part in drafting the bloc's foreign policy program. He said that it is impossible to speak of our state's foreign policy. There are many policies, but no single direction.

"I have always said that pluralism in the parliament is normal. But pluralism in executive branch structures is tantamount to pluralism in one head. That is, schizophrenia," said Mr. Lukin. "We have to stop confusing dreams—of falling asleep and waking up again in the USSR—and strategy. We have to come to understand what Russia is, its weak and strong points. Our weakness is our poorly defended borders and limited levers of influence. Our country is not a superpower, but it is a formidable country, which can and should have its word in world politics. The main requirement is that a country's foreign policy must be to the benefit of, and understandable to, its citizens. In other words, Russian diplomacy must produce results instead of being limited to visits, promotion, and show."

YABloko opposes Russia's potential membership in NATO and the European Union. Yes, good relations with our Western neighbors are necessary, as is Russia's contribution to the international balance of forces ensuring security in Europe and Asia. But national interests should take precedence.

Tatyana Yarygina, who took part in developing the bloc's social program, was probably even more critical than the faction leader, Mr. Yavlinskiy, when speaking about the government's position.

"You see, the government today perpetuates numerous myths, the most 'popular' of which is: 'There is no money for social programs'! And this truly is a myth, because the money is there, and the important thing is deciding what to spend it on. On general education

programs, for instance, or on useless benefits to the gas complex."

The main planks of the bloc's social program are labor reform and income reform. A working person should not be ashamed to mention his wages. And if capital infusion is reorganized, these slogans are realistically implementable!

Other program items were brought up at the conference as well: about investment (competent investment will cease being a bottomless drain of huge quantities of money but will instead create incentives for production and the creation of additional jobs in all sectors of industry); about military policy (resolving domestic problems by force is a sign of the government's weakness—Russia should never use troops to normalize the situation in the country; reform of the military is needed as soon as possible—it should be reorganized, and at the same time solid social guarantees established for servicemen and their families); the topics of culture and ecology were also brought up. In short, everything that is usually mentioned on the eve of elections. The only difference is that if one looks at the YABloko faction's record over the past two years, one begins to believe in these programs.

Among the things to remember was the fact that it was the YABloko faction's initiatives that guaranteed parliamentary and public control over the budget adoption process. That at the faction's initiative, the minimum wage was raised—albeit minimally, it was raised. That the faction introduced the amendment to the law "On Military Duty....," which repealed extending the length of service to two years for those who had been drafted for a year and a half. It is not its fault that our parliament "torpedoed" the amendment....

Economic Issues

*Committee Introducing New Concept of Insurance Market

964E0281B Moscow SEGODNYA in Russian
21 Nov 95 p 8

[Article by Olga Romanova: "The Russian Federal Insurance Oversight Service Wants To Establish a Subsidiary Ministry—a Reinsurance Oversight Service; Insurance Pools Could Be Granted Privileges in the Efforts To Stem the Outflow of Capital"]

[FBIS Translated Text] "On 1 January 1995 around 2,700 insurance organizations of varying property status were operating in the Russian insurance market. Almost 85 percent of them have under 100 million rubles in authorized capital. The combined volume of insurance premiums in the first half of 1995

was 8.9 trillion rubles. The paid premiums were equivalent to just over 1 percent of the GDP, which is only one-third as high as the figure for premiums collected in the beginning of the 1990s. Domestic reinsurance operations still have not been developed adequately in the national insurance market. Payments received in the first half of 1995 by 16 Russian reinsurance companies (other companies did not report their receipts) represent 7.5 percent of all of the insurance payments of Russian insurers and around 2 percent of property and liability insurance premiums. Sizable amounts of premiums for risks insured in foreign currency are transferred to foreign reinsurers in connection with the flaws in the currency regulation of insurance operations by the RF Central Bank—from the Strategy for the Development of the Insurance Market in the Russian Federation.

Reinsurance operations are those in which the insurer is insured against the risks he agrees to cover. In most countries, reinsurance operations are conducted by insurance companies, accounting for up to 40 percent of total turnover, and by companies specializing in reinsurance (there are around 400 of these in the world, whereas there are approximately 11,000 insurance companies). The worldwide tendency toward the rapid growth of reinsurance began moving in the opposite direction in 1983: Many insurance companies have abandoned this market, and those that have remained are inclined to use the financial market to increase their own capital and have raised their rates.

A relatively new strategy for the development of the insurance market in the Russian Federation was proposed at a convention of Russian insurers on Saturday, 18 October. The earlier version, entitled "The General Strategy for the Development of the Insurance Market in Russia" and submitted to the RF Government's Council of Insurance Experts by the Russian Federal Insurance Oversight Service in summer, evoked numerous objections from the State Property Committee, the Council of Insurance Experts of the State Duma Committee on the Budget, Taxes, Banks, and Finance, and the insurers themselves. Acting Chairman Alfred Kokh of the State Property Committee dismissed the document with this sweeping statement: "The draft 'General Strategy...' is devoid of any concrete substance and is essentially a list of intentions." The new version of the strategy is distinguished by even less practical value.

It reiterates the old idea, criticized from all sides, of creating insurance pools and federal reinsurance companies. In spite of the stipulation that "their functioning, the principles governing the consolidation of insurer resources, and the management of these structures should

be planned with consideration for the opinions of professionals in this field, without any coercion or pressure by government agencies," it is clear that the Russian Federal Insurance Oversight Service's two-year-old initiative has demonstrated its viability.

The Russian Federal Insurance Oversight Service, which was established in 1993 as an agency for the licensing of insurance operations, assumed the functions of a ministry of insurance from the very beginning (the Council of Insurance Experts of the State Duma Committee on the Budget, Taxes, Banks, and Finance has repeatedly notified the executive branch of government of violations of laws by the oversight service and has asked the government to review the responsibility of the administrators of this agency for exceeding its authority). One of the oversight service's first—and, as it turned out, main—initiatives was the idea of setting up the Russian National Reinsurance Company (RNPk).

The efforts to accumulate the charter fund of the RNPk with the help of the state and several banks went on for over a year, despite the vehement objections of professionals in the insurance field. The problem was that all insurance companies were to be compelled by presidential edict to reinsure a specific portion of all risks with the RNPk. The Russian Federal Insurance Oversight Service's arguments in favor of the establishment of the RNPk were the need to insure high-cost and high-risk facilities, the need for stricter control over reinsurance in the country and abroad, and its own concerns about the foreign currency drain (its spokesmen like to say that "Russia is being drained by reinsurance").

As far as foreign currency payments are concerned, they are practiced, but the outflow of foreign currency from the country is not a result of capital export schemes: Russian insurers buy foreign reinsurance protection only for the risks that cannot be reinsured in the domestic insurance market. Obviously, it is unlikely that the RNPk could change this situation (especially in view of the fact that compulsory insurance and financial risks were to be ineligible for RNPk reinsurance): The RNPk would either be unable to honor all of its commitments or would also have to reinsure the risks abroad. This would simply create an extra link in the reinsurance chain, which would require new commission fees and new outlays. The RNPk, which would absorb the money of Russian insurers and would enjoy the privileges granted by its father, the Russian Federal Insurance Oversight Service, would be an extremely expensive and absolutely unnecessary middleman. Furthermore, the Russian Federal Insurance Oversight Service is obligated (and fully able) to conduct its general supervisory activity autonomously

and has not need to create a separate reinsurance oversight service in the form of the RNPk.

The developed countries have never had any state reinsurance companies of this type, and in the developing countries these companies were established during the formative stage of the state economy for the purpose of nationalizing the insurance market (as soon as this purpose had been achieved, the companies were liquidated). Obviously, the Russian economy has no such requirements, and we can only hope that this stage of its economic development is long gone. Incidentally, a company of this type does exist in Saudi Arabia, and it is owned by the monarch and two of his brothers, but this is an isolated example.

An insurance convention (similar to the Saturday gathering) was chaired by First Vice Premier Anatoliy Chubays in February this year. At the end of March, Petr Mostovoy, who was temporarily heading the State Property Committee at that time, sent the chairman a letter, expressing amazement at the fundamental differences between the actual results of the convention and the official record of the proceedings.

The convention did not support the Russian Federal Insurance Oversight Service's proposals on the creation of "insurance pools to share contingent liability" and on the establishment of federal reinsurance companies for the purpose of creating a system to reinsure the commitments of the insurance pools. The record of the proceedings reported complete support for the proposals. On the basis of the distorted, to put it mildly, document, Mr. Paydiyev, an administration chief in the Economic Reform Department of the Ministry of Economics, had drafted a government decree in conjunction with Mr. Bugayev, the head of the Russian Federal Insurance Oversight Service, and forwarded it to the ministry for endorsement.

The draft said that "if the cost of insuring the property and the property interests of enterprises and the life and health of their personnel is to be included in the cost of products (and work or services), these enterprises will be insured **exclusively by insurance pools....**" The allocation of state funds for varying degrees of enterprise support "will be based on guarantees of insurance protection from insurance pools." The FPK (Federal Reinsurance Corporation—the new name for the RNPk) was to have the function of "forming the insurance pools and providing organizational support for their activities." Proportional state participation in the authorized capital of the corporation would be secured by reserving "gold shares" as federal property for three years. The Ministry of Finance was supposed to provide

for state guarantees in the amount of a trillion rubles to underwrite the insurance commitments of the FPK.

The most shocking statement was this one: "The securities issued by the FPK will be included among the mandatory reserves of insurance organizations belonging to the insurance pools (to date, only state short-term bonds and some federal bonds have been included in this category of securities—O.R.). By agreement with the RF Central Bank, securities issued by the FPK may be included among the mandatory reserves of commercial banks." Apparently, the liquidity of these securities would be established by a government decree or a presidential edict in this case. The authors of the draft were clearly unacquainted with banking laws, however, because they had no idea of the economic purpose of the mandatory bank reserves.

Alfred Kokh proved to be one of the most competent fighters against the FPK. In his opinion, it is extremely harmful to establish reinsurance companies with state participation: Lacking sufficient capital, they will inevitably become additional (and monopolistic) middlemen between Russian insurers and their Western colleagues. "The imposition of 'collectivization'—membership in the archaic insurance pools—on insurance organizations is inadvisable. By the same token, in the event of the voluntary formation of these pools by companies, it is inadvisable to establish joint liability for them, which would turn the pools into unlimited-liability partnerships. The inclusion of insurance expenses in overhead costs without any artificial restrictions is vitally necessary for the development of the insurance market: The inclusion of these expenses in overhead costs cannot be conditional upon membership in pools. Private insurers should not have to insure the state."

The ideologists proposing the creation of several federal reinsurance corporations are trying to convince the public that they are simply encouraging the establishment of reinsurance companies. This kind of support from the state, however, could create monsters with the strength to monopolize the market for reinsurance services. It is evident that the creation of national reinsurance companies can only be accomplished through the natural growth of insurance companies. If reinsurance companies, corporations, and groups are fostered by administrative measures, the natural growth of insurance capital will be retarded, because it cannot endure this kind of competition.

The All-Russian Union of Insurers—an organization uniting representatives of most of the "new" insurance companies—has been fighting vigorously against the reinsurance plans of the Russian Federal Insurance

Oversight Service for three years. The recent unification of two strong insurance unions—this one and the Insurance Union of Russia—could have a definite anti-lobbying effect on the advancement and evolution of the Russian Federal Insurance Oversight Service's favorite idea in government agencies—an idea obviously conceived as an extremely comfortable "reserve airfield," with a chance of becoming the main one under favorable conditions. Incidentally, the Russian Federal Insurance Oversight Service controls every means of exerting pressure on the entities it oversees, including some it has never been authorized to use.

***Glazyev on Relation Between Federal Budget Policy, Inflation**

964E0287A Moscow *EKONOMIKA I ZHIZN*
in Russian Nov 95 No 47, p 33

[Article by S. Glazyev, chairman of State Duma Committee on Economic Policy; A. Ageyev, committee staff consultant; and Yu. Petrov, laboratory chief at Central Economic-Mathematics Institute: "How Can the Budget System Be Adapted to Inflationary Conditions?"]

[FBIS Translated Text] The draft federal budget for 1996 aroused lively discussions of the possible rates of inflation and the size of various income and expenditure items. These debates, however, did not address the most fundamental aspects of the theory and practice of budget planning and analysis. These are the topics of the article by Chairman S. Glazyev of the State Duma Committee on Economic Policy, A. Ageyev, a consultant on the staff of that committee, and Yu. Petrov, the head of a laboratory at the Central Economic-Mathematics Institute of the Russian Academy of Sciences. The authors conclude that the theory and practice of budget planning do not provide an adequate basis for the stable financing of state expenditures and public oversight of their legality. The State Duma hopes to pass federal laws on state forecasts and budget planning in the Russian Federation to provide the budget process with strong legislative backing and guard it against the voluntaristic decisions of the executive branch of government.

The draft federal budget is based on two separate forecasts of socioeconomic development in the Russian Federation in 1996. The first proceeds from the assumption that objectives will be attained in accordance with the government's plans. According to these plans, financial stabilization can be expected by the end of 1995, the rate of inflation will be lowered to 2-2.5 percent, and the rate in 1996 will not exceed 2 percent a month. This will require the pursuit of a stringent monetary policy, the reduction of the federal budget deficit to 4 percent

of the GDP, and adherence to the non-inflationary principles of its financing.

The objectives of financial stabilization and a lower rate of inflation were also set by the government for 1995, and an analysis of those results is therefore relevant. Many experts called the forecast and the budget indicators unrealistic, including specialists from the institutes of the Economic Department of the Russian Academy of Sciences, and this opinion was also recorded in the report of the State Duma Committee on Economic Policy on the draft federal budget for 1995. According to expert estimates, which were based on actual processes in the economy, the average rate of inflation would be at least 7 percent a month, the GDP for the year would be at least 1,500 trillion rubles, and consolidated budget income would be at least 400 trillion rubles.

Under the conditions of free prices, however, the state could not dictate enterprise prices and could only influence their dynamics indirectly, through the leverage of monetary, currency, fiscal, and anti-monopoly regulation. When the state projected a low rate of inflation, it should have arranged for a group of effective measures to strengthen tax, budget, and payment regulation and customs and currency controls, increase revenue, make use of state property, and reduce the cost of servicing the state debt. The government did not—and, as the experience of recent years has demonstrated, could not—do any of this. Regrettably, the work of the conference commission could not surmount the voluntaristic approach to the calculation of federal budget income. There were only minor adjustments of the rate of inflation (to 2.5-3 percent a month instead of 2 percent) and the GDP (930-1,000 trillion rubles instead of 925-950 trillion). The government refused to recalculate budget income with a view to the more realistic rate of inflation.

What were the results of this? Data on the country's socioeconomic development this year and budget execution reports offer confirmation that the indicators of the alternative forecast and the related estimate of budget income were much closer to the anticipated results than the government figures the State Duma endorsed (Table 1).

By agreeing with the government forecast, the Federal Assembly missed an opportunity to pass a realistic federal budget. Projected budget expenditures were 1.5 times as high as actual expenditures in real terms. This had a severe effect on the functioning of all branches of the national economy and on the country's defensive capabilities and reduced the real income of the population dramatically. By the same token, when the government projected inflation at just about one-third of the anticipated rate, it secured sizable amounts of additional income that was not written into the budget, and it is now spending this money at its own discretion.

Table 1

Main indicators of Russia's socioeconomic development in 1995	Government forecast	Adjusted government forecast	Alternative forecast	Anticipated results
Gross domestic product, trillions of rubles	925-950	930-1,000	1,548	1,600
in % of previous year	92-94	88-92	—	96
GDP deflator index, in % of previous year	167	170-176	270	275-280
Inflation, rate for year, %	—	178-182	—	298-300
average monthly rate, %	2	2.5-3.5	7	7.4-7.5
Industrial product, trillions of rubles	450-465	460-490	723	1,010
in % of previous year	88-90	86-90	87	98
Wholesale price deflator index, in % of previous year	172	174-181	245	300
Investment volume, trillions of rubles	190-200	180-200	232	210-230
Deflator index, in % of previous year	180	180-185	275	249-260

In the bill the government submitted to the State Duma "On Amendments to the Federal Law 'On the Federal Budget for 1995,'" additional income in the amount of 40.7 trillion rubles will be used to finance the deficit (12.8 trillion) to compensate for a shortfall in attracted funds (primarily from foreign loans), and to finance additional budget expenditures (27.9 trillion). According to Article 60 of the Federal Law "On the Federal Budget for 1996," the additional budget income for 1995 should be used for a proportional increase in expenditures in all budget-funded areas, especially science and basic research (just under 800 billion rubles). The bill submitted by the government, however, ignores this provision. It also ignores the provisions pertaining to the funding of education and culture in laws of the Russian Federation and the provisions of the law "On Raising the Minimum Wage." The government hopes to use around 80 percent of all additional budget income to cover the cost of the group of problems connected with the after-effects of the conflict in the Chechen Republic (over 6 trillion rubles), to cover Pension Fund expenditures (around 6.1 trillion), and to provide essential funding for national defense and law enforcement (around 10 trillion). Furthermore, when the government adjusted national defense expenditures, it did nothing about the situation in the defense sector of industry, continuing its policy of underfunding state defense orders.

As Table 2 illustrates, anticipated federal budget expenditures will be equivalent to 17.2 percent of the GDP, whereas the figure in the budget law is 25.8 percent.

Table 2

Basic indicators of 1995 federal budget	Government draft	Budget law	Anticipated results
Income	144.2	175.16	215.9
% of GDP	15.4	18.2	13.5
Expenditures	216.72	248.34	276.3
% of GDP	23.1	25.8	17.2
Deficit	72.08	73.18	60.4
% of GDP	7.7	7.6	3.7

The State Duma has to share the blame for the reduction of real budget expenditures with the government, because instead of passing a realistic forecast and budget, it chose to conduct a selective search for additional income and...miscalculated the amount by more than double, leaving almost 41 trillion rubles unprotected by the federal budget law.

As a result, the inflationary increase in tax receipts did not lead to the commensurate growth of budget allocations for priority expenditures, as stipulated in the Law on the Federal Budget for 1995. The reasons are obvious: Without having to adhere to any firm funding assignments, government officials distributed the infla-

tionary increment according to their own priorities instead of the rules established by law.

The government's forecast of the socioeconomic development of the Russian Federation and the draft federal budget for 1996 display the same approach as the 1995 budget documents. The rate of inflation has been understated and is projected at 1 percent a month. This could only be applauded if the government had kept its earlier promises, but the experience of 1995 provides unequivocal proof to the contrary.

We could wonder what kept the government from meeting its goal of lower inflation, which is still almost as high as it was last year. After all, the government was acting in accordance with the plan of the International Monetary Fund (IMF), even overfulfilling this plan in the reduction of the deficit and budget expenditures and surpassing the IMF indicator for the reduction of real wages. Official statistics provide the answer. According to calculations, one of the main inflationary factors this year was the abuse of market advantages by natural monopolies. In the sphere of public utilities, for example, the price of gas displayed a 13-fold increase in the first nine months of this year, and the prices of electricity and heat more than tripled during this period, while the overall price level did not even double. Inflationary expectations and the control of the market by organized-crime monopolies also had an impact, "boosting" the consumer prices of goods to two or three times the producer prices.

Experience suggests that the present government is conducting a policy favoring several large natural monopolies by allowing exorbitant increases in the prices of their products, lowering export duties, and ignoring the requirements of anti-monopoly legislation. The best example is the gas industry, where the highest wages are combined with the highest rise in prices. This policy is unlikely to undergo any significant changes in the near future, and this means that the rate of inflation will be at least 3-5 percent.

Under these conditions, passing a budget based on a projected rate of 1-2 percent a month will reduce real budget expenditures by 25-40 percent in relation to the projected figures, including expenditures on the payment of wages in public health, education, science, culture, and the armed services. The government's latest attempt to project a rate of inflation only one-half or one-third as high as the anticipated rate in the budget for 1996 could lead to the virtual impoverishment of workers in the non-production sphere: Budget-financed wages will be only half as high as the minimum subsistence level.

The adherence to this approach at a time of inordinate increases in the prices of raw materials and energy

resources, the criminalization of the market, and the irresponsible augmentation of the state debt will not lead to victory in the fight against inflation and will cause the physical extinction of physicians, teachers, scientists, and servicemen and ruin our country's future.

After discussing the forecast and draft budget for 1996, the State Duma Committee on Economic Policy reported the following conclusions:

"1. The basic indicators of the average monthly rate of inflation and the GDP in the forecast of the socioeconomic development of the Russian Federation are not credible.

"2. The government's proposed amendments and additions to tax laws of the Russian Federation cannot be included in the draft federal budget until they have been passed in the form of federal laws.

"3. The government's proposals on federal budget income are not backed up by the appropriate economic policy measures, and the method of calculating federal budget income in 1996 has fundamental flaws.

"4. The government's proposals on the augmentation of the state debt for the purpose of financing the budget deficit exceed the reasonable limits on the growth of foreign and domestic loans.

"5. The passage of the government's proposed federal budget for 1996 will strengthen the tendency toward the decline of the standard of living, weaken the country's defensive capabilities, and destroy the non-production sphere (science, education, public health, and culture)."

On the basis of these conclusions, the State Duma Committee on Economic Policy passed a resolution to recommend parliament's rejection of the first draft of the government's proposed federal bill "On the Federal Budget for 1996" and proposed some obvious ways of increasing federal budget income. They include the stronger protection of the domestic market, which could generate additional budget income of 55 trillion rubles; and the elimination of nonpayments of excise tax and mineral fees by the privileged raw material super-monopolies and the more efficient collection of value-added tax, which could add around 95 trillion rubles.

The conference commission, however, did not take the anticipated rate of inflation into account in its calculations (it chose a monthly average rate of 1.9 percent) and did not support the committee's proposals on obvious ways of increasing budget income, and it therefore had to continue following the government scenario. In other words, it had to agree to the attraction of trillions in foreign and domestic loans to finance

the federal budget deficit and to endorse most of the government's fiscal decisions.

Furthermore, the approval of the committee's proposals would have called for substantial adjustments in government economic policy in the interest of the population and the business community, and the conference commission was unable to take this stance.

As a result, the bill the conference commission submitted to the State Duma for approval envisages income (excluding special budget funds) of 3.7 trillion rubles less than in the original government draft, expenditures (excluding special budget funds) of 3 trillion more, and a deficit 6.7 trillion rubles higher than the original figure. Most of the deputies apparently felt that it would be better to pass even a bad budget than to leave the matter up to the next State Duma.

After the first vote, however, the bill was rejected, and it was not until after V. Zhirinovskiy's "passionate appeal" and A. Chubays' vague promises to increase expenditures on the agroindustrial complex that the bill gained tentative approval on the strength of the support of the Agrarians, who had voted against it the first time. It was passed in spite of the fact that part of the income included in the draft is "up in the air," because it is not backed up by the required changes in tax laws. It was passed in spite of the fact that the search for additional income led to some hasty decisions that will simultaneously increase expenditures in some areas and reduce the already scanty appropriations in other areas of vital importance to the whole country. Of course, all of this will "surface" during the discussion of the second draft of the federal budget, when the deputies will have to review the distribution of expenditures.

Therefore, an analysis of budget execution in 1995 and the first results of the discussion and approval of the draft budget for 1996 attest to the need for changes in the methods of budget planning at a time of high inflation and to considerable changes in the government's economic policy.

Indicators in constant prices and percentages of the GDP are used during all stages of the budget process along with indicators in current prices, but they are only projections and have no legal force. It is a paradox of the budget process that our present tax system turns budget income into a mere projection. Expenditures and the deficit, however, have to be legally secured in the budget.

We cannot have an efficient budget process until we have an efficient state forecasting network. Regrettably, the government is not held accountable for its forecasts and, consequently, for the financial backing of

state expenditures in real terms. By passing the federal law "On State Forecasts and Programs for the Socioeconomic Development of the Russian Federation," the State Duma took the first step in the creation of a budget system meeting the requirements of present conditions. We hope that the new State Duma will take another step in this direction and pass a federal law on budget planning and management in the Russian Federation.

***Response to Dubinin Candidacy for Central Bank Chairman**

964E0239A Moscow KOMMERSANT in Russian
21 Nov 95 No 43, pp 18-22

[Unattributed article under the rubric "Job Vacancy": "The Chairman of the Central Bank of Russia: The IMF Wants a Chairman of the Central Bank. And It Will Get Him"]

[FBIS Translated Text] A person who is truly convinced of the need for Russia's full integration into the system of world economic ties must be at the head of the TsB.

The public disclosure of Dubinin's candidacy coincided in time with the Paris Club's decision on long-term restructuring of the Russian debt.

Will Russia really have a fullfledged chairman of the Central Bank? It seems that we are now closer to it than ever. With the apparent impulsiveness in making decisions characteristic of him, Boris Yeltsin named the candidate for the post of head of the TsB [Central Bank], thereby making all the economic news of the past 2 weeks without exception secondary. Sergey Dubinin was the president's choice. On 22 November he may also be the choice of the State Duma.

Until the End of the Century

What, specifically, makes the selection of the new chairman of the Central Bank the event of the year, if not of the decade? The federal law signed by the president on 26 April and entitled "On Making Amendments and Additions to the RSFSR Law 'On the RSFSR Central Bank (Bank of Russia)'" provides the answer. Born as the result of the titanic efforts of the former vice premier and minister of finance Boris Fedorov, who spent a year and a half to get approval of his draft from the leadership of the Central Bank, the Federal Assembly, and the president, this law, though it is not always consistent, realizes the idea of the Central Bank's independence from the executive and legislative branches of power. Increasing the influence of central banks is now a predominant trend in the most developed countries of the world. Analysis of the financial policies of the

countries of the Organization for Economic Cooperation and Development, which joins 25 of the most developed states of the world, reveals a curious pattern: in the postwar period, an extremely clear relationship can be traced between the degree of independence of the Central Bank and the level of inflation in the country's economy—the more independent the Central Bank is in its decisions, the more stable the national currency. This pattern, it is true, does not go beyond the "circle of the rich": in the Philippines, for example, where the National Bank is not very dependent on other state institutions, financial (like economic) stability is still a goal which is difficult to achieve. Nonetheless, if most of the features of the present political system in Russia are preserved until the start of the next century, a greater role for the Central Bank in the system of organs of economic management will be a predominant trend. That is precisely why a fullfledged chairman of the Bank of Russia (rather than one dependent on the president and therefore an absolutely controllable acting chairman) in terms of status and influence on the country's economic policy is actually equal to the head of the government and why the fact of his appointment has such great repercussions. True, we must confess that these repercussions are more apparent outside of Russia.

One more reason for the increased attention to the figure of the chairman of the Central Bank is that if the State Duma approves him, it is obvious that he will determine Russia's financial policy until the end of this century and possibly into the first years of the next. If parliamentary and presidential elections do not come out well for the present ruling elite, it is precisely the head of the Central Bank who will have to provide the most continuity possible in the economic course, resisting the radical decisions of the executive and legislative branches of power. It is for that very reason that the head of the Central Bank should be not simply a person who declares his willingness to continue progress toward Russia's fuller economic integration into the system of world economic ties, but a person who is truly convinced of the inevitability and benefit of such integration. Especially since, according to the law on the Central Bank, replacing its chairman is not simple.

The Export Variant

Two facts which accompanied the president's choice of Sergey Dubinin for candidate for the post of head of the Central Bank give grounds to suspect the existence of a certain foreign stimulus which unexpectedly made the process of appointing a new chairman of the Bank of Russia more dynamic. First, from the standpoint of the presidential administration, there was no need to remove

Tatyana Paramonova and appoint her first deputy the acting head of the bank in order to submit to the State Duma a completely different candidate for chairman of the Central Bank a day later, and one who is not a member of the "Central Bank of Russia" corporation.

Secondly, the president's choice did not fall on just anyone, but on a man who a year ago did not simply abandon his post but was removed from it by the president for, as it seemed to him at the time, flagrant mistakes in the leadership of the Ministry of Finance (the infamous "Black Tuesday"). Moreover, for almost 9 months before that, Dubinin had remained acting minister of finance and was simply unable to get a fullfledged appointment from the president. And that is not all. It was precisely upon Dubinin that the strange honor fell of being the only official in the entire history of the Russian bureaucracy who received a personal reprimand from the head of state made official in the form of a special directive. It would seem that there was nothing to foretell, at least under the current president, that he would return to the minefield of state government. This conclusion, at first glance confirmed by the entire preceding practice of President Boris Yeltsin, was also supported by the fact that even in the summer after it became apparent that the candidacy of Paramonova would never get through the Duma, Aleksandr Livshchits, who made an attempt to direct the attention of the head of state to Sergey Dubinin, received an extremely cold reception. To some degree Dubinin's second appearance in the presidential band is a precedent (the only time this happened was in Stalinist times, when certain repressed apparatchiks and military men returned to state service, sometimes even with a promotion).

So just what happened? According to the information which KOMMERSANT has, the first stimulus which set off the following headlong course of events came from Tatyana Paramonova herself. One of the informed sources of the White House made a curious confession: "Paramonova behaved purely like a woman: with an already long 'affair.' She put the question point-blank, demanding clarification in relation to the future. Usually such an explanation of relations ends either in marriage or failure. Something like the latter in fact occurred." It was in fact the direct question of the acting chairman of the Central Bank who had been working without a vacation for 2 years and whose psychological state and uncertain status had already begun to have a destructive impact on the work of the bank apparatus which made the president and premier devote a large part of their first meeting since Boris Yeltsin's illness to discussing a possible claimant to the post of Central Bank chairman. It is remarkable that the premier, who

actively lobbied for Dubinin's candidacy, just did not manage at that point to get a definite answer from Boris Yeltsin. Nonetheless, it becomes altogether obvious that Paramonova would be let go.

The subsequent appointment of Aleksandr Khandruyev as acting chairman of the Central Bank was purely intermediate in character. A too close relationship in the past with Viktor Gerashchenko made him an "outsider" both to the Kremlin and to the White House. Not a member of the "court" parties, he could be merely a compromise figure acceptable to avoid strengthening Chernomyrdin too much. But things did not get to that point. Why? Judging from everything because forces whose role in fact became decisive intervened in the struggle for the post of Central Bank chairman during the week after Paramonova's resignation. In addition to a purely political calculation, there exists the only factor which was able to influence Boris Yeltsin, who was wavering, and it could have come only from abroad. And it was at precisely this moment that negotiations with the representatives of the International Monetary Fund [IMF] and the Paris Club of Creditors, which brought together creditor states whom Moscow owes roughly 38 billion dollars of its almost 130 billion dollars in foreign debt, reached their culmination. Hopes for these negotiations were high: it meant long-term restructuring of the debt to the Club which presupposes the possibility of paying off the debt inherited from the Soviet Union in the course of the next 25 years with real payments to creditors not beginning until the year 2002. "In connection with the fact that we were not sufficiently stable in our actions and reforms, they deferred payments on the debt only for each year," notes the vice premier and minister of foreign economic relations Oleg Davydov. In fact, is it possible to speak of stability when there is no clarity in the country regarding who will head the Central Bank in coming years? And developed countries traditionally rivet attention on the Central Bank.

No less important to Russia is the result of negotiations with the IMF mission on granting a credit on the program of extended access (extended fund facilities [in English]), which promises roughly 10 billion dollars within the next 3 years, following the reserve credit (stand-by facilities [in English]).

Judging from everything, Chernomyrdin managed to use the "foreign factor" to push through the candidacy of Dubinin who, unlike Khandruyev who received the label of "inflationist" in 1992-3, has an irreproachable reputation in international financial circles. It is not without reason that in the middle of last year, he proudly bore the nickname Mr. "No Money," born from the light touch of first vice premier Oleg Soskovets. Was it just

coincidence that a few hours after the president finally decided on Sergey Dubinin's candidacy news came that the Paris Club's agreement in principle to make changes in the procedure for payment of the Russian debt had been gained? This became possible after the IMF finally expressed its willingness to support the global restructuring of the Russian foreign debt. Long-circulating rumors that the present Russian premier has emergency mechanisms of interaction with Western patrons were once again confirmed.

... May Happen Even in Russia

Responding during the course of meetings with representatives of parliamentary factions to the question of communist deputies on whether he would be able to work with a government of a different political orientation, Sergey Dubinin announced in a straightforward manner that he would be able to work "with a government with any party make-up," if it is a "normal government with normal economic objectives whose accomplishment will be useful to the country." If "there are no reasonable steps," he will be ready to submit his resignation. We should note that this statement is absolutely without binding power. It remains only to surmise whether the changed mentality of the former university professor and highly placed official who during a year of working in private business acquired previously lacking harsh pragmatism had an effect here, or whether such an announcement demonstrates weakness of character. At the very least, this viewpoint exists: despite his lack of desire to return to state service, Dubinin was forced to consent to abandon his highly placed posts as member of the council of directors of the AO [joint stock company] Gazprom [Gas Industry] and first deputy chairman of the governing board of the Imperial Bank. Evidence suggesting that he lacks an ambitious desire to become the country's head banker is the fact that he refused to take this post with the rights of "acting" chairman, warning that he would sign a statement leaving his previous job only after a vote in the State Duma. "I was already acting [chairman], and it wore down my nerves a great deal trying to get people to treat me as a minister," he said last Thursday.

In the meantime, everything suggests that Dubinin has more than average chance to become Gerashchenko's successor. On Wednesday, 15 November, the budget-finance committee which assembled hastily after the Duma session adopted a decision to support his candidacy with an almost sensational voting result—"unanimously." The fact that the representatives of various factions which are members of the committee were unanimous in their opinion of Dubinin suggests either that he really is acceptable to all political

forces represented in parliament, or that this time the government was able to play a successful game with parliament.

[Box, p 19]

Law "On Making Amendments and Additions to the RSFSR Law 'On the RSFSR Central Bank (Bank of Russia)'" on the Procedure for Appointing and Dismissing the TsB Chairman

Article 12. The chairman of the Bank of Russia is appointed to the post by the State Duma for a term of 4 years by a majority vote of the total number of deputies.

The president of the Russian Federation submits the candidate for appointment to the post of chairman of the Bank of Russia no later than 3 months before the term of the chairman of the Bank of Russia expires.

In the event the chairman of the Bank of Russia is dismissed early from the post, the president of the Russian Federation submits a candidate for this post within 2 weeks from the time of the dismissal.

In the event the candidate proposed for the post of chairman of the Bank of Russia is rejected, the president of the Russian Federation submits a new candidate within 2 weeks. One candidate may not be submitted more than twice.

One and the same person may not hold the post of chairman of the Bank of Russia for more than three terms in a row.

The State Duma has a right to dismiss the chairman of the Bank of Russia from the post at the submission of the president of the Russian Federation.

The chairman of the Bank of Russia may be dismissed from the post only in the following cases:

- 1) the term of office expires;
- 2) the inability to perform official duties confirmed by the report of a state medical commission;
- 3) personal declaration of resignation;
- 4) commitment of a criminally punishable offense determined by a court sentence which has taken legal force;
- 5) violation of federal laws which regulate questions involving the activity of the Bank of Russia.

[Box, p 20]

The correspondent from the Postfaktum Agency posed KOMMERSANT's questions to **Sergey Dubinin**:

[correspondent] What is your opinion of the current parameters of the hard currency corridor?

[Dubinin] The TsB has the economic ability to maintain the hard currency corridor as it is now. However, I do not rule out the need to adjust the mechanism of the hard currency corridor in accordance with the general development of the inflation process and the development of the economy as a whole. One of the most important and fundamental lessons of 1994-1995 was the need for the active participation of the TsB, the government, and the presidential apparat in working out these solutions, and this coordination has now been organized among these structures. A month before the quarter is over, the position of the government and the TsB on the hard currency corridor will be made known.

[correspondent] Recently proposals have been made to increase TsB control over commercial banks and reduce their number. Do you agree with this viewpoint?

[Dubinin] There can be no plan to reduce the number of banks. Simply those banks which best serve their clients must survive. The Central Bank's role here is to create the conditions of the game for all banks and to make attempts to resolve particular conflict situations. But, of course, the Central Bank's participation in regulating the processes occurring among commercial banks will be retained.

[correspondent] How did you feel when you heard about the president's decision to propose you for this post? Were any consultations held with you before the letter was submitted to the Duma?

[Dubinin] I felt the full measure of the responsibility which had been imposed on me as a result of the president's decision. I am aware of it and I will try to do everything in my power if the Duma adopts the appropriate decision. Of course such decisions are not made without understandings and consultations, but I did not meet with the president since he is ill. Discussion of this question has been going on for a long time, and more than once I encountered my name on various lists discussed, it is true, largely by journalists.

[Box, p 21]

Sergey Dubinin

Born 10 December 1950 in Moscow into a family of white-collar workers.

Graduated from the economics department of MGU [Moscow State University] in 1973. Defended his candidate's dissertation in 1977, and his doctoral dissertation in 1990. An MGU professor.

Was a graduate student of the economics department of MGU and teaching assistant in 1973-1977. In 1977-1991 was in succession a senior instructor, senior scientific associate, and docent of the economics department.

In 1991 was expert assistant to the president of the USSR.

In 1992-1993 was deputy chairman of the State Committee on Economic Cooperation with CIS Member-States.

From March 1993 through January 1994 was the first deputy minister of finance of the Russian Federation.

Starting in January 1994 was acting minister of finance of the Russian Federation. At the same time he became a member of the commission on operational questions.

Removed from the post of acting minister of finance and first deputy minister of finance on 12 October 1994.

Since 9 November 1994 has been first deputy chairman of the governing board of the commercial bank Imperial, where he was entrusted with supervising questions of servicing the Imperial's largest client, the RAO [Russian joint stock company] Gazprom. A member of the council of directors of Gazprom.

Married and has two children. His wife is Yelena Dubinina (Gorobets). She is 46 years old and a docent at the Moscow Institute of Electronic Machine Building. His sons are Aleksey, age 7, and Vasilii, age 3.

He is fluent in English.

His hobby is swimming.

[Box, p 22]

Duma Factions on Sergey Dubinin

Mikhail Mityukov, *first deputy chairman of the State Duma (Russia's Choice faction)*

The faction supports Sergey Dubinin. We consider him an experienced professional and a candidate who does not reflect anyone's political passions or attachments.

Igor Shichanin (*deputy group Russia*)

The group has decided to support Sergey Dubinin who was nominated by the president. We believe that the president made the correct choice. Sergey Dubinin is a sufficiently experienced professional to manage such an institution.

Viktor Sheynis (*Yabloko faction*)

Our faction decided to support Sergey Dubinin for the post of TsB chairman. We are in complete solidarity

with the decision of the Duma committee on the budget, taxes, finance, and banks.

Boris Fedorov (*deputy group 12 December*)

Sergey Dubinin is an economist who understands what credit-monetary policy is. The president took the logical course. But earlier Fedorov announced that "two representatives of the RAO Gazprom in the higher echelons of power are simply too many."

The **Agrarian Party faction** is inclined to support Sergey Dubinin. However, the final decision will be made after talks with the government.

The **KPRF [Communist Party of the Russian Federation] faction** has not yet worked out a unified position, although most of its members who were polled expressed a willingness to support Dubinin's candidacy. However, there is a group of communist deputies who are prepared to vote against him.

The **Women of Russia faction** has not yet made up its mind, although at its last meeting a negative attitude was expressed toward the resignation of Tatyana Paramonova, whom the faction has always supported.

Stanislav Govorukhin (*DPR [Democratic Party of Russia] faction*)

It is very likely the faction will heed the opinion of Sergey Glazyev, who is opposed.

***Appointment of Dubinin as Central Bank's Head Viewed Favorably**

964E0259A Moscow *SEGODNYA* in Russian
23 Nov 95 p 4

[Article by Andrey Grigoryev: "Scarcely More Than a Month Remains Until the Powers of the Owner of Vneshtorgbank Expire: Yuriy Poletayev Intends To Discuss the Fate of the Controlling Block With Sergey Dubinin"]

[FBIS Translated Text] For banks with the controlling block at the disposal of the Central Bank, the approval of its new chairman also means the appointment of a new chairman of the bank council. Considering that the TsB [Central Bank] has a 96.4-percent share in the capital of Vneshtorgbank, personal changes in the management of the chief shareholder may have a direct influence on the policy of VTB. At present, Tatyana Paramonova holds the position of chairman of the VTB council.

In the opinion of Yuriy Poletayev, chairman of the board of VTB, Sergey Dubinin certainly has a good orientation to strategic matters, especially since the sphere of his scientific interests corresponds to the specialization of Vneshtorgbank's activity. His lack of

knowledge on certain specific matters should be no problem in relations with us. "I also think that it will be much easier to work with him in solving many of the problems which have arisen now."

Meanwhile, one of the most important problems requiring a solution in the near future is that of the owner of Vneshtorgbank. The new wording of the law on the TsB prohibits the Bank of Russia from being a shareholder in commercial enterprises. The Central Bank is to rid itself of these assets before 1 January of next year. The only exception so far is the controlling block of Sberbank — the deputies have left themselves the right to be in charge of it, by introducing the necessary amendments in the law on the TsB. As for Vneshtorgbank, which is one of the largest Russian banks (with respect to conditions on 1 July, the assets were 22.4 trillion rubles [R] of its own capital —over \$1 billion, and according to the 1994 results — 372d place in the world ratings of the journal, *THE BANKER*), it is very hard to sell, even "at a reduced price" — there is simply no buyer. In addition, the very idea of privatizing VTB is more than debatable and is naturally met with hostility by the bank management. The logical resolution of the imminent legal conflict may be to transfer the VTB shares from the balance sheet of the Central Bank to another state organ.

As Yuriy Poletayev stated, however, "today, just as before, no one is discussing this, either officially or in the back rooms." The legality may be observed through transferring the VTB shares to the Russian Federal Property Fund (RFFI). At the same time, since, in Yuriy Poletayev's opinion, the RFFI does not have the personnel potential necessary to take part in the activity of Vneshtorgbank, it would be reasonable to transfer the powers to manage the bank to some other organization. Mr Poletayev feels that this scheme is the most likely solution to the problem of VTB ownership and the maintenance of qualified state participation in managing the bank. At the same time, the chairman of the VTB council does not rule out the possibility that the controlling organization might be the Central Bank, and that Sergey Dubinin will assume the position of chairman of the council.

***Edict Details Measures To Protect Depositors, Shareholders**

964E0286B Moscow ROSSIYSKAYA GAZETA
in Russian 23 Nov 95 p 3

["Edict of the President of the Russian Federation: On Certain Measures To Protect the Rights of Depositors and Shareholders"]

[FBIS Translated Text] For the purpose of ensuring protection of the rights of depositors and shareholders who have suffered losses resulting from violation of the law on financial and exchange markets of the Russian Federation, as well as to intensify responsibility for

violation of legislation of the Russian Federation, I hereby decree as follows:

1. To ascertain that one of the most important trends in the government policy on the finance and exchange markets of the Russian Federation will be protection of the rights of citizens-depositors in credit and commercial organizations that attract the monetary funds of physical and legal bodies, as well as those of shareholders of joint-stock companies, against unlawful acts and commercial risks occurring in the course of entrepreneurial activity engaged in by banks, credit organizations, and joint-stock companies.

The Government of the Russian Federation is to submit for adoption a comprehensive program of measures within a period of one month providing for protection of the rights of depositors and shareholders which allows for government support and control in the transformation of commercial organizations attracting the financial funds of citizens on the financial and exchange markets of the Russian Federation into investment stock funds, the cessation of activity by legal bodies operating on these markets without the appropriate licenses, and the holding of owners and managers of legal bodies legally responsible for violation of legislation of the Russian Federation ensuring the rights of depositors and shareholders, as well as for the involvement of public organizations of shareholders and depositors in monitoring entrepreneurial activity on the financial and exchange markets of the Russian Federation.

2. Form the federal public-government fund for protection of the rights of depositors and shareholders (henceforth referred to as the Fund), which is to be a noncommercial organization whose founders consist of federal executive agencies joined by public associations created for the purpose of protecting the rights of depositors and shareholders, including committees for the protection of defrauded depositors and shareholders.

Establish the main goals in the operation of the Fund to be:

Compensation of individuals who suffered losses on the financial and exchange markets of the Russian Federation at the expense of funds paid into the Fund in accordance with this decree as well as at the expense of the accumulated property of the Fund;

Formation of a data base and maintenance of a register of depositors and shareholders whose rights were violated on the financial or exchange markets;

Formation of a data base and maintenance of a register of legal bodies and citizens-entrepreneurs who violate legal enactments regulating activity on the financial and exchange markets of the Russian Federation;

Storage, management, and participation in the sale of property or control over the observance of conditions of storage and sale of property in satisfaction of the property rights of depositors and shareholders that were violated as a result of various unlawful acts committed on the financial and exchange markets of the Russian Federation, as well as distribution of funds obtained from the sale of the indicated property in accordance with the goals of the Fund together with other property transferred to the Fund in the established manner.

3. Within a one-month period the Government of the Russian Federation is to undertake necessary measures for registration of the Fund and the organization of its operation.

The Federal Commission on Securities and the Exchange Market of the Government of the Russian Federation, the State Committee of the Russian Federation on the Administration of State Property, and the Russian Federal Property Fund are to be the founders of the Fund in the name of the government.

Ascertain that the founders of the Fund can also be public organizations of depositors and shareholders representing their interests and registered with the Ministry of Justice of the Russian Federation.

4. Establish that in order to ensure effective protection of the rights of citizens who suffered losses on the financial or exchange markets of the Russian Federation, the Fund shall publish information on the revealed violations on those markets and the names of individuals committing them, as well as on the time-frame for sale of property indicated in Point 9 of this edict, and the time and order of making compensatory payments.

The indicated information is published by the Fund on a quarterly basis.

5. An oversight council of the Fund is to be created to ensure supervision over the operation of executive organs within the Fund.

Ascertain that the oversight council of the Fund is to include one representative from each founder of the Fund.

Decisions of the oversight council of the Fund are adopted by a majority of votes of its members and are binding for the Fund organs.

6. Ascertain that the assets of the Fund are utilized for compensatory payments to depositors and shareholders as well as for investment in securities and other highly liquid assets with the resulting revenues to be used for compensatory payments.

The administration and management of the Fund assets, as well as property transferred to the Fund in accordance with Point 9 of this edict, is carried out by the management company (managing companies) in accordance with agreements and exclusively for purposes stipulated by this edict. The management companies of the Fund may include commercial organizations possessing a license to manage stock investment funds.

Conditions governing the operation of the management company (management companies) of the Fund and the order in which the categories of individuals eligible for compensatory payments are established by the Fund are determined along with the amount and deadlines for issuance of compensatory payments, and the amount of funds directed for investment, are adopted by the oversight council of the Fund in accordance with the Fund charter.

7. The storage of property transferred as investments and dues by the founders and other owned property of the Fund, as well as the property transferred to the Fund for storage and sale in accordance with Point 9 of this decree, is carried out on the basis of agreements in specialized depositories possessing a license of the Federal Commission on Securities and the Exchange Market of the Government of the Russian Federation.

Specialized depositories ensure:

Separate accounting and storage of property owned by the Fund and the property transferred to the Fund for storage in accordance with this edict;

Accounting for equipment and monetary funds in regional departments of the Fund;

Formation of a unified data base on property and monetary assets of the Fund, including maintenance of a register (list) of property indicated in Point 9 of this decree;

Control over timely and full receipt of monetary funds and securities when making compensatory payments in accordance with decisions of the oversight council of the Fund.

8. Assets of the Fund are formed with:

Payments by the founders;

Revenues from privatization in accordance with norms establishing the division of assets received from privatization of enterprises, including those from the sale of shares of joint-stock companies created in the process of privatization;

Voluntary contributions and deductions;

Revenues derived by the Fund from the utilization of Fund resources and from entrepreneurial or other activities;

Other revenues and contributions in accordance with this edict and the statutory documents of the Fund;

9. The Fund stores and manages property that has been attached in order to satisfy claims stemming from violation of the law on the financial or exchange markets of the Russian Federation.

The Fund conducts sale (control over the sale) of property attached in compliance with a writ of execution.

The Fund is the nominal holder of property recovered from individuals who have violated the law on financial or exchange markets of the Russian Federation, until the sale of that property in accordance with legislation of the Russian Federation.

10. The Fund has the right to establish regional departments in order to perform the tasks delegated to it, as well as to open branches and representations both on the territory of the Russian Federation and abroad.

11. To recommend that executive organs of the Russian Federation and organs of local self-government take an active part in the activity of the Fund in protecting the rights of depositors and shareholders and extending all-round cooperation in the formation of regional departments of the Fund.

12. Recommend that the Fund extend all-round cooperation in the creation and act as co-founder of regional and local funds for the protection of the rights of depositors and shareholders, whose founders shall be organs of executive power of subjects of the Russian Federation and organs of local self-government, as well as public associations created for the purpose of protecting the rights of depositors and shareholders, including committees for protection of defrauded depositors and shareholders.

13. Within a one-month period the Government of the Russian Federation is to:

Submit to the president of the Russian Federation a draft law on changes and amendments in the Code of Civil Procedure of the Russian Federation, providing for the order in which storage, management, and sale of attached and confiscated property is carried out in connection with law violations on financial and exchange markets of the Russian Federation, which ensures control by public associations created for the purpose of protecting the rights of defrauded depositors and shareholders, as well as the use of funds derived from management and sale of attached or confiscated property

in connection with violations of law on financial and exchange markets of the Russian Federation, and the payment of compensation to depositors and shareholders defrauded as a result of law violations;

Submit a draft law to the president of the Russian Federation for introduction in the State Duma of the Federal Assembly providing for tax benefits in the storage and management of property seized or confiscated in connection with law violations on financial and exchange markets of the Russian Federation for public-government funds for protection of the rights of depositors and shareholders;

Ensure the deposit of 2 percent of revenues derived through privatization in the Fund while the remaining funds are subject to distribution in amounts and in the order determined by Edict No. 478 of the President of the Russian Federation of 11 May 1995 "On Measures To Ensure the Guaranteed Receipt of Revenues from Privatization in the Federal Budget."

14. This edict becomes effective on the date it is signed.

[Signed] B. Yeltsin, president of the Russian Federation

Moscow, the Kremlin
18 November 1995
No. 1157

***Legal Foundation for Economic Reforms Sought**
964E0283A Moscow *EKONOMIKA I ZHIZN*
in Russian Nov 95 No 47, p 1

[Article by Ye. Sukhanov, doctor of law, Law Faculty of Moscow State University, and O. Kozyr, candidate of law, Research Center of Private Law: "'Adoption Cannot Be Delayed!' Where Will the Authorities Put a Comma?"]

[FBIS Translated Text] The legislative base of economic reforms remains highly contradictory today. A change for the better in the situation should occur with the adoption of a series of normative enactments in various areas of the economy by the State Duma. The current increase in activity within the Duma allows one to hope that most of the already elaborated "accumulated" laws will be adopted by the lower chamber in its present composition. The survey below will allow the reader to get a clearer understanding of the situation that has formed in the legislative support of reforms.

Civil Code of the Russian Federation

On 17 November 1995 the State Duma adopted a draft of the second part of the Civil Code in the first reading. That event served to confirm the more systematic

and thought-out line followed by our legislators in the legal backup of the reforms. A gradual transition from the adoption of diverse, frequently random, and almost never "interrelated" legislative acts in individual, sometimes very narrow, spheres to the elaboration of a system based on integrated principles and approaches is becoming apparent. The backbone of such a system, called upon to ensure coordinated and purposeful legal management of economic activity, is quite justifiably called the constitution of the economic life of society.

Creating the nucleus of a system of legal management of commodity and monetary relations, the Code at the same time provides for the adoption on its basis of common norms of an entire complex of legislative and other legal enactments which develop and detail the points incorporated in it. In a way it establishes a grid system whose individual squares are gradually filled by legislators with the adoption of the corresponding enforceable enactments: on individual types of legal bodies, their state registration, on registration of rights to own real estate, as well as others.

That system for regulating property relations must subsequently be taken into account by the tax, customs, foreign currency, and other public legal (administrative) legislation. Unfortunately the creation of norms in that sphere is far from always based on the necessary balance between public legal and private property interests: In accordance with the old Russian tradition, legally binding, especially departmental, enactments in a number of cases still replace or alter the law. This particularly applies to a number of enactments of the Federal Commission on Securities, the RF Committee on the Administration of State Property, the Ministry of Finance, and the Central Bank, which do not always consider the provisions of the Civil Code and other legal private law provisions. On the whole, however, it is possible to say that there is an improvement in the area of law making.

From that viewpoint, the second part of the Civil Code plays a special role as it contains a complete system for the regulation of specifically market relations satisfying the needs and tasks of the Russian market which is forming.

Production Collectives

Many of the adopted draft laws are distinguished by the competent manner in which they were worked out, fully satisfying the tasks set for them, which makes it possible to hope that they will be used effectively in practice. The law on production cooperatives can serve as an example of such an enactment. It not only defines a clear legal status for such commercial organizations, based on the corresponding rules in part one of the Civil

Code, but also provides for the need for the government to cooperate in their development. In part, restrictions on the rights of cooperatives, as compared with other types of commercial organizations, for participation in privatization which were put in place by legislation in an unsubstantiated manner have been lifted. That in turn provides for the possibility of creating not only joint-stock companies, but also production cooperatives on the basis of property of privatized state enterprises. This organizational-legal form allows greater consideration of the interests of the worker who is at the same time a member of a cooperative, and entitled to take part in the distribution of revenue and in management.

Joint-Stock Companies

The latest version of the law on joint-stock companies, adopted in the second reading on 15 November, is better than the previous versions. It eliminates many of the loopholes for dishonest founders and directors of joint-stock companies with regard to the use of property of those organizations. Almost total correspondence has been achieved between its rules and the points contained in the first part of the Civil Code. After numerous discussions, the preparers still viewed the concept of the statutory capital of the company as the principal guarantee of the property interests of its creditors. Detailed rules on the order in which the general meeting is to be convened, which received exceptional powers as the top organ in the company, along with restriction on the value of transactions which may be carried out by executive organs of the company without the agreement of its supervisory council (board of directors) or the general meeting, likewise serve to protect the interests of rank and file shareholders.

Unfortunately even this version of the draft law cannot be considered free of shortcomings. It still infringes on the rights of shareholders by depriving them of the right to information on the activity of the company as stipulated in Point 1, Article 67 of the Civil Code, including the right to familiarize themselves with bookkeeping documentation, and by allowing the adoption of decisions at a general meeting by the majority of votes of those actually present without setting any wise limitations in that case. Members of the executive organ of the company can simultaneously be on the supervisory council (even though they may not form a majority in it), that is, in essence they can control themselves. Conditions governing the responsibility of the home offices for debts of branch offices controlled by them, as stipulated in Article 105 of the Civil Code, have been narrowed down in an unsubstantiated manner, which will hardly promote the required protection of the interests of creditors of the company. Such contradictions in the

application of the law will have to be resolved with consideration of rules in Paragraph 2, Article 3 of the Civil Code, which grant priority to norms of the Code (see further details on the draft law on joint-stock companies on page 39).

Unified Government Register

Along with determination of the status of individual types of legal bodies in the law on joint-stock companies, it is also necessary to introduce a unified system of state registration of the creation, reorganization, or liquidation of legal bodies, which is ensured by the introduction of a unified government register. The corresponding law, the adoption of which is to become Article 51 of the Civil Code, must ensure the use of integrated rules on registration throughout the country applying to all forms of legal bodies. Accounting of legal bodies using an integrated system, making it possible to furnish information on them to all those who are interested for an appropriate fee, is an important function of the registration service.

The draft law adopted by the State Duma provides for a form of registration in which the government assumes the task of checking the legality but not the feasibility of creating and liquidating legal bodies. This means that registration may be refused only for two reasons: in cases of violation of the established order of formation, reorganization, or liquidation of a legal body, and if the founding documents do not meet the requirements of the law. Registration will be carried out by organs of an integrated system headed by the Federal Registration Officer of the Russian Federation Ministry of Justice.

Mortgage

The law on mortgage is very important for the development of the real estate and securities market. With its adoption the 1992 law on mortgage will lose its force. A new form of securities will appear—mortgages, secured with real estate and therefore of particular interest to potential investors. The draft includes clear-cut and highly important practical rules on mortgages on such types of property as land plots, enterprises, and other property complexes, residences, and apartments. These rules guarantee observance of the property interests of both the mortgagee and, to the necessary degree, those of the mortgagor. Thus, well thought-out "civilized" rules are created which suit the modern market requirements for transactions involving these valuable forms of property.

Government Registration of Rights to Real Estate Ownership

The mortgage, as indicated by attempts to utilize it, is incapable of functioning without rules concerning

registration of rights to real estate property ownership ensuring reliable information on its actual legal status. They are included in the draft law on government registration of rights to real estate property ownership and transactions with it, which creates the mechanism for realization of many norms contained in the first part of the Civil Code, which is necessary for the application of points found in the draft of the second part of the Civil Code regarding concrete transactions with real estate.

Without an effectively functioning registration system, not a single buyer can be certain that he is acquiring a piece of property which actually belongs to the seller and that no individuals will come forth possessing various rights to that property that were not known to him. Purchase and sale transactions of real estate, its mortgaging, or leasing cannot be carried out without registration, which confirms the transfer of ownership to the buyer, and the creation of the appropriate right or encumbrance. At present these functions are performed by a great variety of agencies—BTI, agencies of the Roskomzem [RF Committee on Resources and Land Management], and others.

The draft law prepared for the second reading, even though it is not entirely free of shortcomings, is on the whole directed at the creation of a viable system of registration through the maintenance of the Integrated Government Register on the basis of a system of entries established by law.

It is natural that its introduction, which affects millions of subjects, will not permit the immediate registration of all property. Foreign experience indicates that it may take years. In Britain, for example it has been in the process of implementation since 1925, but only around 80 percent of the total amount of property subject to registration has so far actually been registered. Therefore the draft law confirms that the present right to own property is recognized as existing and may be registered on a voluntary basis. All newly appearing property rights must be registered.

Tax Legislation

Every country has tax legislation, and the more advanced the society, the more balanced the tax burden on entrepreneurial activity and personal incomes of the population. This is highly important for the normal development of production and, at the same time, to preserve the motivation of individual citizens to raise their incomes.

It has long been known that Russian legislation imposes a heavy tax burden on entrepreneurs. At the same time the tax table for citizens is sufficiently low (it is true that

it is not low by comparison with the average income in developed countries, but in relation to the average income in Russia, which is one of the lowest in the world).

The Tax Code, whose draft the government has been working on for a long period of time, may be the first serious step toward the creation of effective tax legislation. Even without going into detail it is impossible not to notice that at present the draft is still highly imperfect. One of its serious shortcomings is its conflict with Civil Code provisions on many points. Attempts to create concepts in a public enactment that are an alternative to such traditional private property concepts as place of residence, individual entrepreneurship, and so on, are not constructive. While the government is completing work on the draft tax code, the State Duma is attempting to correct the situation by introducing changes in individual tax laws. Changes have been proposed as of 1996 in the taxation of personal income. We are talking not just about raising the tax rates, which, by the way, is also being suggested (it is proposed to raise the maximum rate from 30 to 35 percent). What is most important is the concept of a differentiated rate scale (from 20 to 30 percent) for individuals with a so-called "average" income (that is an annual income of between R12 and R48 million). The corresponding draft law was adopted by the State Duma in the first reading (for more detail on tax legislation see page 3).

The Land Code

Another sphere that is important both for economic transformations and the majority of citizens involves land relations. Uncertainty remains as to whether the Land Code will be created, and if so, in what form it will be adopted by the current composition of the State Duma (its review in the second reading is included in the work plan of the Duma). Existing land legislation today primarily consists of presidential edicts and government decisions used to varying degrees in different regions of the country. The main feature of the legislation of subjects of the Federation in this sphere can be considered quite diversified. As far as other laws in the sphere of regulating the use of natural resources are concerned, it is necessary to note the Water Code, which was adopted in October 1995.

*Rosugol Head Malyshev Lauds Government Support, Asks for More

964E0286A Moscow ROSSIYSKAYA GAZETA
in Russian 30 Nov 95 pp 1-2

[Article by Yu. Malyshev, general director of Rosugol Company: "Government Has No Outstanding Debts"]

[FBIS Translated Text] As commonly known, the heads of mining trade union organizations of Vorkuta are threatening to stop working in the

mines on 1 December because of nonpayment of wages.

The Rosugol Company considers it necessary to provide an explanation of the financial situation of enterprises of the coal industry, including delays in the payment of wages.

During January-October 1995 the Ministry of Finance of the Russian Federation transferred 6.2368 trillion rubles [R] in government subsidies to the coal branch, including R759.7 billion through October. Funds due the mines in accordance with the tariff agreement, including an advance for the first half of November, were transferred to the Vorkutaugol association on time.

Restructuring of the coal industry began producing perceptible economic results. For the first time in many years a growth in labor productivity is being observed in the branch. This year it was up 11 percent. Some stable tendencies appeared toward an improvement in the competitive capability of coal production, and the social infrastructure of mining towns and settlements is being improved. In two and a half years 34 unprofitable mines were closed, and all the freed miners are socially protected.

Pensioners received a second, branch pension and able-bodied persons were transferred to promising new coal enterprises, and where such an opportunity did not exist, the former miners received retraining and began working at new enterprises.

All of that proved to be possible because of the large amount of attention paid by the leadership of the country to the coal industry. With all the complexities of the situation, the problems of coal miners are being studied on a priority basis and resolved by President of Russia B.N. Yeltsin, by the Government of the Russian Federation headed by V.S. Chernomyrdin, and by the State Duma, which recently adopted the law on state regulation of the mining and consumption of coal. The schedule for allocation of budgetary funds for the coal branch, signed by A.B. Chubays, first deputy chairman of the Government of the Russian Federation, is being carefully observed.

The other question concerns the fact that the volume of state subsidies for the coal branch, envisaged for 1995, is on the whole not sufficient for its normal operation. Even according to the conclusion that was reached by the Ministry of Economy it should be over R9 trillion. The budget, however, appropriates 7.5 trillion. The shortfall in funds is now having a particularly strong effect in the fourth quarter because of rising inflation, which significantly exceeds the planned level.

The delay in payment of wages to the miners by 80 percent is due to the arrears of the consumers. On 1 November their debts just for the coal that was received reached R3.9 trillion. The overall indebtedness of the consumers to enterprises of the coal industry in all areas came to R8.9 trillion as of 1 October of this year. Some R899 billion is needed to cover the wage indebtedness, of which R709.5 billion is owed by consumers.

A large group of specialists departed for Vorkuta on 29 November from the Rosugol company which, together with the leadership of the association, must analyze the sociopolitical situation at the enterprises and work out concrete proposals for normalization of the situation.

A general stabilization of the economic and social situation in the coal regions of the country, however, may be achieved only with the fulfillment of the State Duma decree and instructions of the president of Russia concerning the allocation of additional financial funds for the coal industry for the remainder of 1995, with an increase in budgetary financing next year up to at least R10.8 trillion.

***Analytical Center Views Consumer Goods Market**

964E0284A Moscow IZVESTIYA in Russian
29 Nov 95 p 7

[Article by Zh. Yevdokimova and Ye. Myasin, All-Russian Scientific Research Institute of the Consumer Market and Marketing: "Consumer Basket of the Average Russian"]

[FBIS Translated Text] There are many estimates of the degree to which the living standard of Russians has deteriorated. Calculations based on official statistical data indicate that from December 1991 (the eve of the reforms) to September 1995 the real income of the average Russian decreased by a factor of almost 2.2.

According to estimates of the All-Russian Scientific Research Institute of the Consumer Market and Marketing, which has been conducting systematic studies of the living standard of the population of the USSR, and as of 1992, that of Russia, this drop is even greater, amounting to a factor of approximately 2.7.

In order to estimate the cost of living, use is made of the cost indices of various consumer baskets containing a selection of 19 food items and the subsistence minimum.

Every week Goskomstat [State Committee on Statistics] multiplies local and average prices in Russia by the physical components and its reports, for example, can then be used to determine that between July and September of this year the cost of a selection of 19 basic food items rose by 5 percent and came to

205,000 rubles [R]. Yakutsk is the most expensive city, where that selection costs R448,000, while the cheapest city is Ulyanovsk, where the consumer must pay only R131,000 for the same selection.

The subsistence minimum as an index "appeared on the stage" in 1992. It then became clear that the minimum consumer budget that was prepared in the past with a certain degree of freedom in the selection of consumer goods remains unattainable for the absolute majority of Russians. As planned, the subsistence minimum was introduced for a period up to the end of 1992 and was designed for survival under conditions of an economy in crisis. Therefore its product selection, while ensuring a sufficiently high calorific value, was based on cheaper survival on bread and potatoes and allowed expenditures only on sanitary products, children's clothing and footwear, municipal and home services, transportation, and taxes. It did not include any expenditures on cultural and personal goods, clothing, and footwear for adults at all. In essence the subsistence minimum determines the upper boundary of chronic poverty or simply poverty. That index is used to determine government social policy and provide support for the impoverished population.

It was planned for this index to form the basis for calculating minimum wages and pensions. The latter, however, are hopelessly attempting to catch up to the runaway subsistence minimum. The gap between them at times decreases by a factor of two, then grows by a factor of five and higher. In September of this year the subsistence minimum amounted to R286,000 on the average per Russian.

Taking into account that the above indices do not provide an adequate reflection of real changes in the cost of living, we attempted to trace its changes in Russia during the reform period on the basis of the minimum consumer basket worked out by the institute.

By contrast with the above-named consumer baskets used in calculations by the State Committee on Statistics, the minimum consumer basket of the institute contains not only a selection of food items (44) but also 360 items of clothing, footwear, furniture, bedding, and other consumer goods and services. With regard to cost, our selection is about 15 percent "heavier" than the average Russian subsistence minimum, although in content it is much richer.

The consumer basket prepared by the All-Russian Scientific Research Institute of the Consumer Market and Marketing satisfies the need for food while ensuring replenishment of a minimum selection of nonfood consumer items at the minimum level. Among services, the selection includes expenditures on housing and

public utilities, urban passenger transport, telephone and postal expenditures, maintenance and repair of household appliances and housing, and entertainment expenses.

A comparison of the cost of the minimum consumer basket in December 1991 with that in September 1995 indicated that on the whole during the period of reforms

it grew by a factor 1,643 (See table). The calculation of average retail prices was made on the basis of data obtained by monitoring the price level, which the institute has been conducting for over five years. In analyzing the dynamics of retail prices, it is necessary to take it into account that the minimum consumer basket includes goods primarily of domestic manufacture.

Composition of Minimum Consumer Basket

	1991		1995		1995 com- pared to 1991
	December		September		Factor of
	Rubles, percent		Rubles, percent		
Food	451.5	56.4	788,340	89.9	1,746
Clothing, footwear	129.7	16.2	104,035	7.9	802
Cultural and personal goods	49.3	6.2	95,800	7.3	1,943
Services	69.3	8.7	150,300	11.4	2,169
Taxes	67.6	8.4	119,800	9.1	1,769
Other expenses	32.6	4.1	67,900	4.4	1,776
	801.0	100	1,315,975	100	1,643

The table indicates that rates for services grew the fastest. The group of cultural and personal goods overtook all others in the rate of their growth, followed by food products. Prices for clothing and footwear increased the least.

Within the commodity groups there are some record-setters. Among food products—the price of wheat bread loaves increased by a factor of 3,929, milk—by a factor of 3,666, cottage cheese—by a factor of 3,649, and cheeses—by a factor of 3,525. Salted pork fat was the biggest record-holder, with prices that increased by a factor 5,266. There is something to be surprised about. During this period prices for better quality meat products grew much less—by a factor of from 1,500 to 2,378.

Now let us compare these indices with the dynamics of expenditures of Russians. In 1991 the average monthly per capita income was R467. In nine months of 1995 the average per capita income reached R476,000 (increasing by a factor of 1,013). The average monthly wage during the same period rose from R548 to R430,000,

growing by a factor of 785. If one is to compare indices for September 1995 to those in December 1991, the rise in monetary income and wages will appear even more modest: increasing by a factor of 603 and 473, respectively. It turns out that the average Russian could purchase in December 1991 five minimum consumer baskets with his income, and only 1.9 baskets in September. The value of wages decreased even more during that period: On the eve of reforms wages could be used to purchase six, but now only 1.7 of the minimum consumer selection.

According to our estimates, today over 53 million individuals or 36 percent of the entire population are unable to satisfy basic living needs even at the minimum level. According to official data, 39 million individuals, or 14 percent fewer people, are below the poverty line.

Even according to official figures, the gap in income levels of the 10 percent of the most and least well-off population amounts to a factor of 13.4. According to our estimates, that correlation comes to a factor of 16.

If we had a fairer tax system with regard to the poorest strata of the population and if full tax collection was ensured from the rich, then only a 9 percent tax hike on 20 percent of the wealthiest segment of the population would be required to bring the income of the poor up to the minimum subsistence level.

***Monitoring for 'Credits-for-Shares' Privatization Program Urged**

964E0290B Moscow DELOVOY MIR in Russian
1 Dec 95 p 1

[Article by Vadim Mikhnevich: "Security Deposit Privatization: With A Noose Around the Neck. Enterprises Whose State Packets of Shares Have Acquired New Owners Continue to Exist on Starvation Rations"]

[FBIS Translated Text] As the heads of three large capital banks—Inkombank, "Rossiyskiy Kredit" ["Russian Credit"] and Alpha Bank announced (cf. DELOVOY MIR No 207-208 and 209-210 dated 23-30 November 1995), the procedure of investment competitions and security deposit auctions requires clearly delineated regulation and strict control of its results. Otherwise, the governmental program, "Credits-for-Shares," is doomed to total failure.

The fact that the results of this program are rather far from those which had been expected is evidenced by the very sharp discussion surrounding the sale of state packets of shares in elite Russian enterprises, which has rocked the capital press as well as the State Duma. Goskomimushchestvo [State Committee for Administration of State Property] is forced to maneuver desperately, shuffling shares, removing lots, and annulling results of tenders.

At the same time, the government is in dire need of money to finance the budget deficit. It can no longer obtain this money in the required amounts through the sale of state bonds on the securities market. Even worse, the servicing of the overly inflated domestic state debt is already starting to have a decisive influence on the growth of the budget deficit. As experts predict, we should not expect a reduction in the rates of growth of the state debt, and consequently the federal expenditures allocated to it, at least until the next elections in June.

In its search for resources, the government is forced to be hasty, and we know where haste leads. Confirmation of what we have said is the scandal which is developing within the large commercial banks, and which has spilled forth the fruits of that very haste which we mentioned.

The reason for the scandal was the competitive struggle for ownership of 78 percent of the shares in the oil

company "Yukos," whose security deposit auction is to be held on 8 December. However, as early as 9 November, the "Menatep" bank, announced as "the strategic partner" of the "Yukos" company, held a press conference in which it stated that it has no doubt of its victory in the competition, where the cost of the lot is appraised at \$350 million American dollars.

The competitors of "Menatep" in this auction are a consortium of three other large capital banks: Inkombank, "Rossiyskiy Kredit" and Alpha Bank. And it appears rather serious. In any case, as the leaders of the consortium stated, the balance of its available assets is 5 times greater than Menatep's assets, its total capital exceeds Menatep's by more than 3 times, and its total profits—by more than 6.5 times.

However, despite such an impressive difference, the leadership of the consortium is certainly not convinced that it will be able to overcome "Menatep." The essence of the apprehensions held by Mr. Vinogradov, Mr. Malkin and Mr. Friedman was expressed at an impromptu press conference. At this press conference, facts were publicized which were so sensational that some of them deserve more detailed examination.

As Inkombank President Vladimir Vinogradov announced, the consortium is voicing a sharp protest against the unequal conditions in which Menatep's competitors have been placed.

"We certainly are not opposed to privatization as such," he said. "We are only speaking out for bringing about proper order in this matter, for clear regulation of procedure and control over the investor's fulfillment of his responsibilities."

The essence of the complaints levelled against "Menatep" may briefly be formulated in the approximately the following manner: The use of its "official" position for personal purposes. Being the authorized bank of the Russian Federal Property Fund (or, as Mr. Vinogradov said, "the most authorized bank") in organizing the competition for shares in the "Yukos" company, "Menatep" is at the same time also a participant in this competition. Having strictly confidential information at its disposal (and the applications for the competition go specifically through "Menatep"), the bank can use this information for its own purposes and, judging by its statement of 9 November, intends to do so.

In connection with this, the consortium has sent a letter to Boris Yeltsin, in which it presents a proposal to postpone holding security deposit auctions until such time as it is possible to develop rules of the game and mutual responsibility, at least at the level

of direct-action government decrees. Or, even better—a special legislative statute adopted by the State Duma. They also appealed to the RF [Russian Federation] Goskomimushchestvo with a similar proposal.

What the president will decide is still unclear. However, as they affirm, in Goskomimushchestvo they considered the consortium's argumentation unsubstantiated and confirmed the intention to hold the said auction on 8 December.

The fact that the consortium has gone toward "Menatep" openly, as they say, is evidenced by the accusations levelled at "Menatep," which, if we are to believe them, state that this bank has still not invested a cent into enterprises whose shares it has acquired.

According to the consortium's leaders, the enterprises which "Menatep" owes are experiencing a most acute shortage of financial resources, and many are on the brink of bankruptcy altogether. Already today, judicial proceedings on "Menatep's" debts are underway, and altogether the bank owes about 60 enterprises.

The consortium members also emphasized another instance. The current account into which, according to the conditions of the competition, currency is to be deposited (\$350 million) is to be publicized only a few days before the start of the auction. According to Mr. Vinogradov, not one of the operating Russian banks is able to collect the required sum in such a short period of time. The limit of their capacities is \$100 - \$150 million. Bankers generally believe that the deposit of money in cash is totally senseless, proposing to substitute bank guarantees or security deposit of GKO [state short-term bonds] for the cash.

The literal translation of such a methodology appears rather simple: Conditions are thereby created for the companies themselves to buy out the state share of their stock through mobilization of dollars from the numerous accounts of the very same "Yukos," or by means of some other financial maneuver. If we consider the fact that the "black gold" is quite easily transformed into real gold, we may confidently state that the necessary sum will always be found at the necessary moment.

As for the bank triumvirate which also aspires to the packet of "Yukos" shares, it too intends to find the money. And to "teach the government a lesson" at the same time. As Mikhail Friedman, chairman of the board of directors of Alpha Bank, stated, the consortium participants have no other recourse but to get the currency through mass sale of the GKO's belonging to them. If this were to happen, we can only guess what would occur on the GKO and currency markets.

However, the consortium participants do not hide the fact that both markets expect very strong upheavals.

But now let us return to the start of our discussion. If we proceed not from illusions, but from the real interests of the economy, the dilemma—to continue or to "slow down" the government program—becomes far from a rhetorical one. The industrial elite is certainly not comprised of those enterprises which no one needs. And here, it seems, the initiative of Goskomimushchestvo has been grasped rather skillfully, making it known that "outsiders do not go here." And, if it is proven that the shares put up for auction do not give anything to the enterprises, the appraisals of privatization may get an entirely different interpretation: This is beginning to smell a bit like nationalization.

Then again, as "Menatep's" reaction to the actions of the consortium testifies, this bank has its own views of the situation. In any case, "Menatep" has filed suit against the consortium, demanding compensation of the loss which the publicized statements have inflicted upon its interests and business reputation. The oil complex also had a reaction. As we learned, the "Yuganskneftegaz" company closed its accounts in Inkombank.

***Decree on Interstate Aviation Committee**

964E0298A Moscow ROSSIYSKAYA GAZETA
in Russian 5 Dec 95 p 3

[Decree No 1022 of RF Government of 17 October 1995 "On Signing of Agreement Between RF Government and Interstate Aviation Committee on Conditions of Its Presence within RF Territory," signed in Moscow by Chairman V. Chernomyrdin]

[FBIS Translated Text] Assigning great importance to the operations of the Interstate Aviation Committee, in line with the commitments assumed by Russia in the intergovernmental Agreement on Civil Aviation and on the Use of the Air Space and pursuant to RF Presidential Edict No 439 of 5 May 1992 "On Measures to Implement the Intergovernmental Agreement on Civil Aviation and on the Use of the Air Space Within the Territory of the Russian Federation" ("Reports of the Congress of People's Deputies of the Russian Federation and Supreme Soviet of the Russian Federation," 1992, No 19, Sec 1049) and Decree No 367 of the Russian Federation Government of 23 April 1994 "On the Improvement of the Certification System and the Procedures for Investigating Air Disasters in RF Civil Aviation" ("Collected Laws of the Russian Federation," 1994, No 1, Sec 22), the Government of the Russian Federation hereby decrees that:

The draft Agreement Between the Government of the Russian Federation and the Interstate Aviation Commit-

tee on the Conditions of Its Presence Within the Territory of the Russian Federation (attached)* (Footnote) (* Not published.), submitted by the Russian Federation Ministry of Foreign Affairs and endorsed by the Russian Federation Ministry of Cooperation with CIS States, the Russian Federation Ministry of Internal Affairs, the Russian Federation Ministry of Labor, the Russian Federation Ministry of Social Welfare, the Russian Federation Ministry of Finance, the Russian Federation Ministry of Justice, the State Committee of the Russian Federation on the Administration of State Property, the Russian Federation State Customs Committee, the Russian Federation State Tax Service, the Federal Security Service of the Russian Federation, the Russian Federation President's Federal Agency of Government Communications and Information, and the Moscow Municipal Government, is hereby approved.

The advisability of the endorsement of this agreement by the chairman of the RF Government is hereby acknowledged.

[Signed] V. Chernomyrdin, Chairman of the Government of the Russian Federation

***Foreign Investors, Future of Russian Oil Viewed**
964F0503A Moscow NEZAVISIMAYA GAZETA
in Russian 30 Nov 95 p 4

[Article by Viktor Kuznetsov: "Russian Oil and Foreign Investment; Foreign Companies Are Leaving Russia, and Public Officials Are To Blame"]

[FBIS Translated Text] In its history, spanning more than a century, the domestic oil industry has produced almost 14 billion tonnes of oil, and around 40 percent of the total was produced in the last 10-12 years.

The output in Russia at the beginning of the 20th century was around 8.8 million tonnes a year. The output of oil in 1940 was 3.4 times as great as in 1913. In 1946 Stalin insisted on an annual output of 60 million tonnes, and this was the aim of the three postwar five-year plans: "This is the only way we can protect ourselves against any eventuality." By 1955 the output already exceeded 70 million tonnes, and by the beginning of the 1960s it had reached 147 million tonnes a year.

In the 1950s, 1960s, and 1970s, a period distinguished by the discovery and incorporation of the large oil fields of the Ural-Volga zone and West Siberia, the annual increase in oil production exceeded 20-25 million tonnes. This was a result of an emphasis on the exploitation of highly productive oil pools. The oil from active, easily accessible deposits was extracted at a rate of 10-12 percent a year. The depletion of strata in the oil fields of Tyumen Oblast now exceeds 30 percent, and the fig-

ures for other regions are 70 percent for the Volga-Vyatka zone and 80 percent for the Northern Caucasus. Oil wells with a low yield, producing under 25 tonnes of oil a day, now represent 85 percent of the total, as compared to 37 percent in 1981; the proportional amount of highly productive wells, yielding more than 50 tonnes a day, dropped from 51 percent to 5 percent during the same period. The oil from most wells has a high rate of water contamination—up to 85-90 percent. There are still sizable quantities of retained oil, however, in the blind zones and dead zones of oil pools.

Known reserves of the black gold in Russia amount to 25 billion tonnes, a figure surpassed only by the known reserves in Saudi Arabia. Around 900 oil deposits are being worked in our country—all the way from Kaliningrad to Sakhalin, and from Kolguyev Island in the north to the foothills of the Caucasus in the south. West Siberia, with 66 percent of the output of black gold and 70 percent of all known reserves, is the country's main oil-producing region. Most of the unexplored resources are also concentrated there, although they also exist in East Siberia, the European north, and the shelf of the Arctic and Far Eastern seas.

Oil production in Russia reached its highest point—569.5 million tonnes—in 1988. By 1995 it had dropped to 317 million tonnes and is still falling.

Only 185.7 million tonnes of oil reached Russian refineries in 1994. The rest was exported. Even in earlier years—the perestroika and pre-perestroika years—only half of our oil was refined at home. The rest was sold to foreign states.

Crude oil prices began to rise dramatically in 1974, reaching 234-249 dollars a tonne by the beginning of the 1980s, as compared to 18 dollars in fall 1973. It is true that these prices dropped to 95-103 dollars a tonne soon afterward, but in December 1986 the OPEC countries agreed to raise the price of a tonne of exported oil to 132 dollars. Today it is even higher. It rose 21 dollars in the second quarter of 1995. Since 15 March 1995 Russian oil has been sent to the CIS countries at 125 dollars a tonne and to the Baltic countries at world prices.

No other country in the world has even experienced the kind of dramatic growth of the oil and gas industry that occurred in the USSR in the middle of the 1970s. The development of new areas in West Siberia quickly led to a 3.3-fold increase in the oil output and a 6.4-fold increase in gas production. The days when the high rates of oil production were secured by the intensive exploitation of active reserves in conveniently located fields, however, are gone and will never return. Most of Russia's oil today is concentrated in almost inaccessible

pools, requiring non-traditional approaches and large capital investments. The amount of investment required in the oil industry each year up to the end of the century could be as high as 15-20 billion dollars. Nevertheless, the oil and gas industry is the most appealing of all branches of the Russian economy to foreign investors.

Western oil companies suddenly took a great interest in Russian oil fields in 1989—following the publication of the pertinent decree of the USSR Council of Ministers—but this interest is dwindling today.

France "Elf" company, which once submitted the winning bid for the exploratory and drilling rights to new deposits in Saratov and Volgograd oblasts, admitted in summer 1995 that it had encountered insurmountable difficulties and curtailed its operations.

The "Amoco" company (United States) also decided not to work the cis-Ob deposit, although it had already built a residential complex on the future site of the oil fields. The laboratory it had planned to set up in Nadym had to be returned to Oklahoma: The fees public officials were demanding were incredibly high.

When representatives of "Marathon" and "McDermott" (United States), "Mitsui" and "Mitsubishi" (Japan), and "Shell" (Great Britain—Netherlands) were invited to negotiate the joint development of the Piltun-Astokhskiye and Lunskiye deposits on the Sakhalin shelf, they categorically refused to finance this expensive project unless their investment could be secured by legislative guarantees.

"Russia has turned out to be a terrible place to do business," an editorial in the international weekly OIL AND GAS JOURNAL said, stressing that mineral resources were controlled by criminal gangs: "It is not enough for the government to pass laws encouraging investment; it also has to enforce other laws."

Our transport network is inadequate—we do not have enough pipelines, railroads, and sea and river terminals. The scarce funds of Russian consumers of energy resources are another sore spot. Under these conditions, corrupt groups can feel invulnerable. Oil industry officials in Moscow and elsewhere have accumulated unprecedented wealth. The nouveaux riches ride around in foreign cars, own luxurious homes in the Moscow suburbs, and have moved their families into prestigious apartment houses. Some of them are even rumored to have sizable accounts in Western banks. Furthermore, they have managed to do this in spite of the inexorable decline of oil production and the shortage of fuel for agricultural needs, for the heating of homes and maternity wards.... In the agricultural settlement of Emmaus near Tver, for example, I saw shops for the production

of vitamin-enriched grass meal that were near ruin—even the large agricultural association here could not afford to buy solar oil.

Russia could continue to be a major producer and exporter of oil, our main national resource, if it establishes normal relations with foreign investors. Normal relations did not presuppose super-profits for overseas companies. It is enough for their oil business in Russia to have a decent profit margin. If, however, foreign companies start leaving Russia in disgust, the country will be on the verge of abject poverty. The public officials will get even richer, of course, and that is why they became public officials.

***15-23 November Movements on Moscow Interbank Currency Exchange**

964E0281A Moscow ROSSIYSKAYA GAZETA
in Russian 25 Nov 95 p 12

[*"RosBiznesConsulting"* report: "The Demand for Dollars Is Rising"]

[*FBIS Translated Text*] The exchange rate of the dollar in MMVB trading rose 34 rubles, or 0.75 percent, between 15 and 23 November.

The rise in the demand for foreign currency was not unexpected, because experts had repeatedly predicted a possible rise in the exchange rate in the near future. The large supply of rubles in commercial banks and the constant lag between the rate of rise in the dollar exchange rate and the rate of inflation had to lead sooner or later to higher client demand for foreign currency. The steady rise of the dollar exchange rate since the beginning of November has also changed market expectations in favor of speculation. Many banks finally sold their hard currency in summer and the beginning of fall and put the money into short-term state bonds until the end of the year, hoping to buy dollars at the exchange rate of the currency "corridor." When the rate began to climb and the value of the short-term bonds declined, many banks profited by closing out their "long swap," selling the securities and buying foreign currency.

Brisk trading in the interbank market resumed on 17 November, and the exchange rate could have climbed to 4,590 rubles if the Central Bank had not intervened. The 20-ruble difference between the market quotation and the interbank rate seemed too high for many dealers, and the rate even dropped by 1 ruble at the beginning of the day. The activity of players in the interbank market naturally spread to the MMVB [Moscow Interbank Currency Exchange]. Interbank quotations rose quickly after the trading in which the dollar exchange rate rose

7 rubles. This was a convenient opportunity for banks to use the funds in special accounts for the purchase of foreign currency on the MMVB.

Results of U.S. Dollar Trading on MMVB

Dates	Exchange rate, R/\$	Trading volume, millions of dollars	Demand, millions of dollars	Supply, millions of dollars
15 Nov	4,532	24.00	16.23	24.00
16 Nov	4,537	27.54	27.54	12.30
17 Nov	4,544	59.96	60.02	42.46
20 Nov	4,559	113.22	113.59	84.91
21 Nov	4,559	70.13	70.13	41.96
22 Nov	4,566	39.71	39.72	19.86
23 Nov	4,566	22.76	22.76	14.94

Activity in the market continued to grow on 20 November. On the one hand, the rapid rise of the MMVB exchange rate heightened the banks' expectations of a stronger dollar in the next few days. They were reinforced considerably by client purchases of foreign currency. On the other, the Central Bank intervened again, although its restrictions did not impede the overall tendency toward growth.

The gradual rise of the dollar exchange rate was quite probably convenient for the banks, the government, and the Central Bank. For the banks, the rising exchange rate and the activity in the market meant a higher income from forex operations. If this growth were to continue, it would provide an opportunity for virtually failsafe speculation.

Gross turnover on the MMVB on 20 November reached its highest level since the beginning of fall. The exchange rate rose 15 rubles—the highest rise since 7 September. After the trading the interbank quotations rose, although this was following by a perceptible decline, so the market opened and closed at the same level.

After the MMVB rate had been rising for three days, resulting in a rate 27 rubles higher (this rate of rise had not been recorded since the beginning of September), the rate remained steady on 21 November. This quickly affected the interbank market, and its quotations fell. This was probably due to the actions of banks expecting a rise in the MMVB rate, but the declining interbank rate had a serious impact.

On 22 November the rate rose 7 rubles (the last time the rate had been this high was on 7 July). Trading volume decreased as a result of low market activity on Tuesday and the diversion of funds for a public bond auction. As usual, the rise in the MMVB rate created momentum for the rise of interbank quotations.

The tendency toward a stronger dollar in the domestic currency market should continue in the near future.

*Current Situation in Banking System Viewed

964E0296A Moscow VOPROSY EKONOMIKI
in Russian Nov 95 No 11, pp 111-117

[Article by V. Mekhryakov, candidate in Economic Sciences, manager of the Moscow Branch of Uralvneshtorgbank: "Russia's Banking System: The Current Situation and Problems of Development"]

[FBIS Translated Text] Russia's banking system is five years old this year. The foundation for its formation was laid by an order of the chairman of the board of the RSFSR State Bank of 17 August 1990, in accordance with which USSR Gosbank administrations were turned into RSFSR State Bank administrations. Many problems were surmounted during the past years. Mutual nonpayments, the "gold fever" of easy money, "black Tuesday" and many other problems have been left behind. In spite of everything, Russia's banking system has not only remained standing, but has grown stronger. It is as hard to compare its present-day power — by the end of September there were over 2,500 commercial banks registered in Russia — with the situation characteristic for 1991 as it is to discern the breadth and scale of the Volga in the Samara area on the basis of a little river in the Urals.

The evolution of commercial banks in the past five years may theoretically be broken up into three stages. The first is the usual commercial activity, the basic goal of which was to get onto their feet and gather strength. After that, "bristling" with funds and communications, the bank passes to the second stage — it becomes a social institution, necessary to society, performing the very important function of handling the monetary transactions of economic agents. The bank does not so far, however, take part in the political life of the country. Most Russian banks, of those which are five years old, have already passed the first stage of formation and are in the second stage. The largest banks have passed to the third stage of development and possess noticeable political weight.

But why then is it precisely today that there is so much talk about the instability of the banking system, so much uneasiness about its future? The question of a coming

wave of bankruptcy has already arisen more than once recently. Where does the truth lie — in the strength that makes it possible to survive and grow stronger in the economy, or in the weakness which overcomes many banks overnight?

There is obviously no inconsistency here. It happens this way in life — when a person passes from adolescence to maturity, he surprisingly combines within himself both strength and weakness at the same time. Something like that is now happening to the banking system. The banks, just as Russian society, have not solved many of their problems, and their overall situation therefore remains unstable. At the same time, this does not mean that the role of the banks as economic institutions is fundamentally a humble one. The role of the banks should be evaluated, not according to a particular result, which we can see at present, but according to their overall purpose — to serve the interests of realizing society's need for credit institutions. In practice, this means that each bank should assist in protecting the interests of all its clients. We know that the specific products of a bank are deposit, credit and clearing transactions. This is where the positive purpose of banks as enterprises lies. But this is also where the banks are, for the time being, proving to be weak.

The main reason for the weakness of the banking sector is the crisis situation in the economy and the attendant crisis in society's faith in credit institutions. The people, who have for decades experienced for themselves the permissiveness of the authorities, and are exhausted by the endless race of inflation, often do not trust commercial banks, not because they are not a reliable place in which to keep monetary funds, but because our recent history has taught them this. Let us remember the way the people first stood in line to hand over their money to savings banks because of rumors about the coming monetary reform, and then rushed to remove their deposits for fear of their being frozen.

Unfortunately, the RF Central Bank has recently been following a policy which places the banks in a serious economic position. I mean the compulsory bank reserve. The aim of this policy is understandable in principle — to take rubles out of circulation, and through immobilization of the ruble, "to beat down" the exchange rate of the dollar, in order to ensure the conditions for attracting the loans of international organizations and simultaneously create reserves to extend credit for the budget deficit. In this situation, many banks have two ways out left to them: either cease to exist or go begging to the Bank of Russia. Today — this is a reality. If a bank is not solvent, it is forced to agree fully with the position of the Bank of Russia, and then there is a chance that they will help and support the bank. If the bank does not

agree, it will be appointed a temporary administration, because of its pre-bankruptcy situation, and the bank's management will be relieved of its work.

It is not only the policy followed by the Central Bank and the instability of the macro-economic situation that has caused the crisis state of Russian banks, however. The banks' own tactical errors also led to it. Unfortunately, quite a large part of the banks in Russia have shareholders — major sectorial structures — who thrust on the banks a policy of protectionist credit. For the sake of satisfying the needs of their leading shareholders, many banks extend credit to inefficient projects, thereby risking the profit of the client, and sometimes his capital as well. This type of credit extension is becoming the scourge of the Russian banking system, and it threatens to undermine the bases of the credit policy and reinforce the trend toward the bankruptcy of credit institutions.

There is another category of banks for which, as before, the main task is the pursuit of the "easy" and "quick" ruble. Analysis shows that most of the banks at one time tempted clients with super-high interest and issued loans to unreliable clients. Unjustified risks turned into nonpayments and a serious financial situation. Especially important, in periods of exacerbated financial difficulties, these banks as a rule sharply stepped up their activity as a borrower on the interbank credit market. This led to the nonliquidity of them and of their clients, and of the whole chain of partners, creating a "domino" effect.

Because of this, making the banking system healthy and closing banks which are undermining the foundations of the financial sphere are becoming not only inevitable, but also necessary. This should, of course, take place in a civilized way. First and foremost, not all the banks that find themselves in a difficult economic position can be classified in the same way. It appears that the idea of supporting banks and averting their bankruptcy merits attention only when the violation of the principles of conducting banking business proves to be quite serious and might entail the loss of the monetary funds of the clients (enterprises and the people). It would therefore be useful:

In the first place, to create in the country a mechanism to avert the bankruptcies of credit institutions, which would lead to a loss of the clients' resources;

In the second place, to determine, by norm, the minimum total amount of credit for a bank's shareholders, not to exceed the volume of the resources drawn in;

In the third place, in banks subject to reorganization, to set up a commission on clearing up their balance sheet,

seeking sources of support for liquidity and improving the credit portfolio, in order to protect the interests of the clients;

In the fourth place, one of the basic tasks of the firms carrying out the banking audit should be not only confirming the balance and the statement of profits and losses, but also revealing that part of the bank's assets which is not supported by the appropriate reserve.

The centralized loans of the Bank of Russia have an adverse effect on the stability of the banking system. As we know, these loans sustain quite a large part of the assets of certain Russian banks, and a considerable number of financial institutions could not survive without them. In implementing centralized credit on a wide scale, the Bank of Russia not only resorts to constant infusions into the monetary circulation, thus urging on a rise in inflation, but also shifts the credit risks to the commercial banks and demands from them guarantees of the recovery of the loans.

All this, of course, exacerbates the problem of centralized loans. On the one hand, granting them prolongs the agony of unpromising production facilities, which require increasingly new life-saving injections. On the other hand, under the existing conditions, it is impossible to give up centralized loans. Their curtailment will lead to the bankruptcy of quite a large number of banks and of some borrowers. More sensible, in our opinion, is a policy of issuing centralized resources only to highly liquid banking institutions, capable of ensuring recoverable financing of projects, and in the future, the gradual renunciation of centralized loans.

In the estimates of many experts, a considerable part of the Russian banks are on the verge of survival. The crisis in production and the worsening of the credit portfolio will inevitably reduce the liquidity of the credit institutions. Nevertheless, however, the reasons for bankruptcy lie partially within the bank. Analysis shows that the technology of credit operations and the ability to assess credit risks correctly are at an extremely low level. The Russian "somehow or other it will pass," combined with superficiality, little professionalism and corruption, are pushing Russian banks toward bankruptcy.

In a bank, just as at any enterprise, it is important to adhere to technological discipline — otherwise, substandard work and losses are inevitable. Unfortunately, by no means everybody in banking circles understands this axiom. A number of banks operate mainly on faith. This is not all that bad in itself. But the situation in the economy is such that difficulties in selling goods and services make it obligatory to adhere to the bases of extending credit formulated by the practice itself: make

a thorough evaluation of the subject and object of the credit, an analysis of the quality of the guarantee and after that, have faith.

One of the reasons for the weakness of the banking sector is the lack of an officially recognized program for the development and improvement of credit institutions. A situation forms in which each bank itself struggles with the market elements, and gets out of a difficult economic situation in its own way.

The procedure of absorbing and merging banks deserves particular attention. The new legislation expands the powers of the Bank of Russia and specifies, in particular, that a bank must obtain special permission for each purchase of over 20 percent of the charter fund. The active participation of the RF Central Bank in concentrating banking capital will give this unhealthy procedure a more controllable and purposeful nature. Prompt financial clearing up of potential bankruptcy will make it possible to ward off the "domino effect." Monitoring the transfer of the ownership of banks from one hand to another will make it possible to concentrate their activity in regions and sectors of the national economy that are priority and promising from the macro-economic standpoint. Finally, monitoring the merger process may be used as an additional and very efficient instrument in combating the criminal situation in the banking system.

It would appear, however, that all these measures will begin to show real results only on one condition — that they be supported by the banking community. Five years of practical work have shown convincingly that restrictive measures alone cannot make banks move in the necessary direction. Today it is obvious that the period of frank egoism, in which each bank worries only about itself and does not want to acknowledge anything or anyone, is a thing of the past. The banking milieu is actively forming an understanding of the priority nature of generally significant interests and of the need to forgo their own advantage for the sake of them. This progressive trend gives some basis for hoping that many of the problems which hold back the development of banking activity will be solved in the near future.

All the same, the roots of the crisis in the banking system obviously lie deeper. For five years, commercial banks have been developing essentially autonomously, not linking themselves by any obligations to the remaining sectors of the economy. This is natural for the initial period. The reality is such, however, that it is no longer possible to sail on any farther "autonomously." The practice that has formed, in which commercial banks finance only foreign economic activity and trade and industrial enterprises on an extremely limited scale will inevitably lead to the country's diversified economic

complex being forced out by a one-sided economy, oriented toward the export of raw material and its primary processing. The stagnating "short-credited" sectors will not simply "surrender," however. They and their heavy burden will fall on the banks working with them, and through them — on the entire banking system. In other words, we will again get a "domino effect," but much deeper, and we will no longer succeed in warding it off by just clearing up individual banking structures.

Radical reorientation of commercial bank activity is, of course, impossible without a clear-cut state policy. As long as speculation in state securities brings in large profits, the banks will invest all their free funds in them. Today we can hardly or seriously accuse commercial banks of short-sightedness because they direct over half of the commercial ruble loans to that precise market. The government's task obviously lies in forming, finally, a clear program of structural reforms, and supporting it with workable, stimulating mechanisms. At the same time, it is also important to determine the conditions under which the reform of the banking sector can be developed. In our opinion, they should include:

1) Further diversification of the ownership of bank capital:

A gradual decrease in the state's share in the banking sector;

An increase in the proportion of the people's resources in the joint-stock capital of commercial banks.

2) Putting order into state regulation of the banking sector, through:

Assigning the oversight of commercial bank activity to a special autonomous service;

Consolidating the efforts of the government and parliament in working out the directions for development of the economy and the priorities of investment;

A clearly defined range of operations performed by various types of banks;

Passage of a complete package of laws regulating banking activity;

Adoption of a state program for training and retraining banking personnel.

The conditions necessary for developing the country's banking sector are yet to be created. Appeals to the banks to invest money in production, to direct it toward long-term investments and priority sectors and to reduce interest rates will be ineffective unless the slogans are supported by the appropriate measures. We must not forget that the banks work primarily not with their own,

but with someone else's monetary funds, which they are obliged to issue at the first demand of their client, with an increment in the form of adequate interest. Under the conditions of an economic crisis and political instability, the banking risk greatly multiplies. The bank is required not merely to distribute the money collected, but to manage the capital, which would guarantee the preservation of the relative value of the depositors' funds. If most of the bank's resources are short-term, it cannot disperse them for a long period.

Commercial banks cannot grant cheap loans, since they themselves obtain funds primarily at market price. If a bank cannot satisfy any demand for funds, it can do irreparable damage to itself and to others. If a bank risks its profit and its capital, that is its affair, but it cannot risk the profit of a client, or his capital. A bank does not have the right to exist if its policy leads to the bankruptcy, not only of itself, but also of those who trusted it with their capital. These are the principles of conduct of the banking industry, and if we do not want to violate them, we must change our attitude toward them.

Surmounting the crisis and economic stabilization in many ways depend on the activity of the banks, because, given all the problems in the development of the banking sector which are often mentioned, today's Russian banks are no longer the banks that they were before. Their capital base is quite imposing, and the total circulation of Russia's banking sector many times over exceeds the volumes accumulated in the federal budget.

The resources of commercial banks are a tremendous strength, which, under the appropriate conditions, may help to solve many of the problems of the development of the Russian economy.

In the last five years, Russian commercial banks have also grown considerably with respect to personnel. With the rise in incomes of their co-workers in the banks, workers from other structures with non-standard ideas began to arrive at the banks, people with a creative impulse and a knowledge of computer technology, mathematics and physics, unfettered with the burden of old ideas about the activity of credit institutions. Not every bank, of course, has a strong managerial team, but the fact that the banks have grown in the personnel respect remains a fact, and it would be wrong not to take this circumstance into consideration. The staff of a number of Russian banks is already capable of solving economic problems which would in the past have been decided at the highest level.

Banks have always been close to the economy, the entire monetary turnover of the enterprises passes through them, and from the accounts of the clients we can

judge their financial well-being and the extent of the turnover rate and direction of the funds. Banks possess information on the state of affairs at an enterprise, and are familiar with its balance sheet and the statements of profits and losses. It is therefore easier for them to assess the merits and shortcomings of an object of financing and to determine the risk of business operations and capital investments. The banks, being the partners of the enterprises, and preaching the philosophy of "everything for the client," are interested in their development, and implement efficient redistribution of the financial resources.

Banks deal with money — the sharpest weapon of the market. Only with the aid of money, credit and the interest on loans (in a complex with other value instruments) can we solve the problems of investment and of the support of both individual enterprises and entire sectors. In themselves, banks are not only an inalienable part of a market economy, but also its key element. It is impossible to solve the problems of finding a way out of the crisis with the aid of the federal and local budgets or with the aid of the finances of enterprises, not because these instruments are obsolete, but because they deal with the distribution of an already created product, and are based mainly on accumulated resources. These resources, under the conditions of inflation, are extremely small, and it takes a long time to accumulate enough of them to invest in production. The instrument which accelerates social development has always been credit — a powerful mover of economic growth. The task lies in using it correctly, and moreover, not by means of administrative measures, but in a decentralized way, through commercial banks.

The banks are already a powerful economic force and it would be wrong not to use it in full volume. For this, the banks must be interested in allocating their own resources to shares in enterprises and to granting long-term loans. The taxation of these operations should, of course, be revised. It is important that the banks be linked to the renovation and reorganization of enterprises, and this will be their investment in production. Working within the framework of adequate legislation, the banks themselves will put order into the enterprises, including those where the hopelessly "obsolete" former management has been too long ensconced. It is precisely through this same credit technology that the banks should not only determine the significance of the financial coefficients characterizing the activity of the enterprises, but also determine the business risk, and this means, where it proves necessary, replacing insufficiently qualified management.

It is important that the banks not come to a halt in their development. Interbank competition should assist

this in many ways. This question is quite a difficult one for Russian banks, primarily because it pertains to the number of credit institutions. The materials of the Third International Banking Conference noted that a sufficient number of banks has already formed in Russia. Obviously, it is hard to answer the question: how many independent banks, in the full sense of the word, should there be in Russia, but there is no doubt that the number of them, together with their branches, is insufficient. Let us look for comparison at the density of banks in the Western countries (according to the international standards adopted, the density is determined by the number of inhabitants per bank branch). There are 717 inhabitants for each branch in Belgium, 835 — in Switzerland, 1,000 — in the FRG, 1,314 — in France, 1,331 in England, and 1,780 inhabitants in Japan. The most "unfavorable" country from the standpoint of the norms of density of branches is the United States, where there are 2,214 inhabitants for each of them (not counting, of course, the numerous firms, trade organizations and other companies which are permitted by law to perform certain types of banking operations).

In Russia, however, the number of inhabitants per bank branch is higher by a factor of 1.4 than in the United States (including divisions, branches and agencies of RF Sberbank). It is obviously premature, in this connection, to speak of Russia's economic structure being fully saturated with banks. This is particularly true of the eastern regions of the country, where slightly more than 16 percent of all Russian banks and their branches are located. The situation in small oblast cities is also unfavorable. Let us give an example for comparison. The city of New Haven (United States), located in the state of Connecticut, with a population of 135,000 people, has in operation over 30 credit institutions with varying profile, which have on the whole about 200 city branches¹. The city of Pervouralsk, in Sverdlovsk Oblast, with a population of about 200,000 people, has 10 credit institutions, including a branch of Sberbank. It can be seen from these data that in Russia the network of financial institutions sufficient for the needs of the economy is still only in the stage of formation.

Interbank competition is in many ways also determined by the types of banks operating in the corresponding regions. As has already been noted, in Russia, most of the banks aspire to all-purpose activity, and at the same time, the quality of service and often the income from the banking operations are determined by a bank's degree of specialization. For a number of objective reasons, Russia still has to create a sufficiently representative network of investment, innovation, municipal and mortgage banks and a network of cooperative credit institutions, especially in the rural areas.

Competition in the banking sector may also be an important factor of development if the banks offer the market a much greater number of services than they do at present. The Russian client, unspoiled by service, is for the time being forced to put up with queues, limited banking services, slow completion of payments and the high cost of banking operations. The time will not be long in coming, however, when the client himself will realize with which bank he has to do business, where it is most efficient to open accounts and where the loan interest and commission are preferable and the quality of the banking services higher. The only banks that will win are those where the quality of the banking product is higher, and its cost — lower. The banks will win which, not in words, but in deeds, put into practice the ideology of the bank as the partner of the enterprises.

Given all the complexity of the problems, it would seem that they now rest on the shoulders of the commercial banks. There are already personnel who have accumulated a fair amount of experience in solving problems that are new in principle. Purely technically — to give up the tactics of "quick" money and reorganize into long-term strategic credit — is not a difficult task. Psychologically — it is difficult. After all, banks should, essentially, voluntarily share part of their income with the clients, in the name of stability and, albeit more slowly, crisis-free development. Taking on the responsibility and making this decision means showing maturity and confidence in one's strength. Time will tell if the banking community is ready for this.

Footnotes

1) Milovidov, V.D., "Sovremennoye bankovskoye delo. Opyt organizatsii i funktsionirovaniya bankov v SShA" [Modern Banking Business. Experience in the Organization and Operation of Banks in the United States], Moscow, Izdatelstvo MGU, 1992, p 12.

Central Bank Corruption Case Detailed

964F0584A Moscow INTERFAKS-AIF in Russian
4-10 Dec 95 No 23, pp 1, 9

[Interview with Major General of Justice Leonid Titarov, chief of the investigative unit of the Investigative Committee of the RF MVD, by Yuri Shcherban, INTERFAKS correspondent; place and date not given: "Major General of Justice Comments on the Central Bank Corruption Case"]

[FBIS Translated Text]

Investigation

The Investigative Committee of the RF MVD [Russian Federation Ministry of Internal Affairs] has concluded

the investigation of the criminal case concerning bribery among officials of the Central Bank of Russia. As expected, Ravil Sitdikov, chief of the Central Operational Administration (TsOU) of the Central Bank, and three of his deputies—Raisa Turova, Valentina Popruga, and Vladimir Martynov—will figure in the trial. According to the estimates of investigators, in 1992 these persons allocated favorable credits in the sum of R5 billion to a number of commercial enterprises and banks at a profit to themselves. The material damage to the state from these illegal actions amounted to R554 million (this figure is indicated in the prices that prevailed three years ago—now, the sum of damages should be increased by a factor of more than 100). At the request of the weekly INTERFAKS-AIF, Yuri Shcherban, an INTERFAX correspondent, met with Major General of Justice Leonid Titarov, chief of the investigative unit of the Investigative Committee of the RF MVD, and asked him a number of questions.

[Shcherban] How were the employees of the MVD Investigative Committee able to determine that there were employees of the Central Bank with, as it is customary to say, "dirty hands?"

[Titarov] In May 1992 the MVD Investigative Committee instituted criminal proceedings in a bank swindle that was unique in its way, in which billions of rubles were stolen from the state treasury with the use of letters of advice payment documents. In the course of its investigation the first information was received regarding bribes in the Central Bank of Russia.

The employees of a number of commercial structures recounted during questioning that "approaches" to the Central Bank were found first by Georgiy Letunov, their business partner, who was at that time director of the large Soyuzprofbank, which was established on trade union money.

Further investigation confirmed that Letunov really had connections in the Central Bank. It was he who recommended businessmen to Ravil Sitdikov, Central Operational Administration director, and facilitated the opening in the administration of a settlement account of a commercial firm with the high-sounding name of Slavonic Trading House.

Incidentally, it was precisely in the Central Operational Administration that settlement accounts were opened for such "power" ministries and departments as the MVD, the Ministry of Defense, the FSB [Federal Security Service], and the Procuracy General.

[Shcherban] But is the fact that accounts of commercial enterprises were opened in the Central Operational Administration illegal?

[Titarov] No statutes exist concerning the Central Operational Administration to the present day, but the law on the Bank of Russia and its charter prohibited the opening and servicing of accounts of commercial enterprises and organizations in the administration. What is more, it was ordered in 1992 that the accounts of commercial enterprises there be closed and transferred to commercial banks. However, the very fact of opening an account in the Central Operational Administration is not a *corpus delicti*. By way of an exception and with the concurrence of the director of the Central Bank, the question could have been resolved in a positive way in principle.

[Shcherban] But on what basis was the exception made specifically for the Slavonic Trading House?

[Titarov] It is exactly this fact that alerted the investigators: The exception was made for a firm that does not represent any kind of national or federal interest. Its financial turnover was conducted only using credits received from the Central Operational Administration. In addition, it was established that in this and other cases the Central Operational Administration frequently issued credits at interest rates that were lower than stipulated by the Central Bank, and this already constitutes malfeasance in office.

When during the investigation all the nuances of the relationships between employees of the bank and the representatives of commercial structures were clearly traced, and their personal interest in these relations was established, the investigators saw that banal bribery was behind these "favorable" credits, which were not justified in any way.

On 24 August in an interview with an INTERFAX correspondent the brother of Ravil Sitdikov—the present deputy chairman of the Central Bank, Rinat Setdikov—declared that the criminal case of corruption in the Central Bank was completely fabricated.

According to him, Central Operational Administration employees were taken in a case concerning *aviso*, and "within 10 days this case disappeared and the *aviso* was forgotten. Then, suddenly, questions arose associated with bribes on a particularly large scale. And now after a period of several years MVD investigators are trying unsuccessfully to prove something...."

It is hard to expect an objective evaluation of the work of the investigators from the brother of the accused. In addition, it was established in the case that Ravil Sitdikov enjoyed the patronage of Rinat Setdikov who, going outside the scope of his official duties, gave illegal authorization for the opening and maintenance of accounts of commercial enterprises in the Central

Operational Administration of the Central Bank at the request of the Central Operational Administration chief.

Incidentally, in one of them—InterIntellect—Rinat Setdikov was a member of the board in violation of the edict of the president of Russia "On the Fight against Corruption in the State Service System." And to this enterprise the accused R. Sitdikov, after committing official forgery, at the request of his brother issued favorable centralized credit, intentionally employing a reduced discount rate.

[Shcherban] Do you think that the bribery case has been completely proven?

[Titarov] The evidence is contained in 70 criminal case volumes. It is curious that it was disclosed in the course of the investigation that in the Central Operational Administration bribes were discussed in public—almost at meetings of the labor collective.

[Shcherban] How did this occur?

[Titarov] Questions regarding opening settlement accounts in the Central Operational Administration, issuance of credits and cash—which, by the way, was categorically prohibited (cash was issued in a special-purpose procedure only on the acquisition of agricultural products and on the issuance of wages, allowances, and stipends) were decided by four persons: the chief of the administration himself and three of his deputies. Each of them answered for something specific, but the briber was interested in having all four act jointly. For example, one of them ensured the receipt of credit, the other converted it into cash.

The one who gave the bribe, naturally, gave it to all of them. At the same time the bank employees were consulted: "What would you like to receive?" As a result, each of the four was guaranteed the delivery of the same Italian Ocean refrigerators, Samsung microwave ovens, Omega vacuum cleaners, Supra video systems, rugs, sheepskin coats, and certain models of automobiles. All these "gifts" were confiscated and introduced into the case as material evidence.

[Shcherban] But why were these people not afraid of publicity?

[Titarov] Actually, the circle that knew what was being acquired and for whom was rather wide. In the course of the investigation we conducted checks on the testimony of witnesses who showed the entire route of the delivery of bribes—from the stores to the apartments of the accused. To be sure, in the first stages of the investigation the lawyers of those under investigation tried to claim that their clients did not take bribes, but took advantage of clearance sales in the Central

Operational Administration. However, what kinds of sales are they, if money did not even have to be paid for the goods?

[Shcherban] What other commercial structures, besides the Slavonic Trading House, succeeded in opening an account in the Central Operational Administration?

[Titrov] The already mentioned joint enterprise [SP] InterIntellekt, the Universal joint-stock company, the Sodeystviye-1 TOO [limited liability company], the small enterprise Iskit—and small commercial structures and several commercial banks that were of absolutely no use to the state.

The investigation did not find one document that would be able to explain why accounts were opened for them specifically in the Central Operational Administration; however, it was established that each of these structures "showed its appreciation" to employees of the administration either with the presentation of ownership of land plots, organizing the construction of cottages, selling automobiles at a reduced price, or with \$1,000 credit cards.

[Shcherban] What kind of damage was inflicted on the state in 1992 by the illegal activity of highly placed employees of the Central Bank?

[Titrov] As I have already said, the investigation was able to establish that Central Operational Administration employees succeeded in allocating more than R5 billion in centralized credits, and they issued about R550 million in the form of cash.

The Central Bank lost R554 million from payments that were made at credit rates that were lower than required, and R600 million because of unpaid credits. Incidentally the conclusions of the investigation concerning the gross violations of banking legislation were also corroborated by a documentary inspection conducted at the initiative of an investigation of the audit department of the Central Bank. Its results are known to the Central Bank of Russia. Now the MVD is waiting for an answer to a proposal on measures adopted after the disclosure in the course of the investigation of the reasons and conditions that contributed to the commission of the indicated crimes.

[Shcherban] How do you evaluate the future prospects of this criminal case?

[Titrov] The investigation of the bribery case was concluded in the Investigative Committee in August of 1994. More than a year after that those under investigation became familiar with the materials.

The investigators got the impression that they were in no hurry to appear in court and that, possibly, they were

anticipating an amnesty of the kind that was adopted by the State Duma on 23 February 1994. At that time the parliamentarians "pardoned" a number of official crimes, violations of the rules on currency operations, and also the theft of state property by means of abuse of official position.

Corruption cases, i.e., the mercenary use of one's official position by officials of various ranks, fall in the category of increased difficulty, and they are always examined in a complex way in the courts. The Moscow municipal court initiated the proceedings on the case of bribery in the Central Bank. I hope that its highly professional judges will look into the peripeteia of the activity of the former Central Operational Administration managers and give it the necessary evaluation. After all, the Central Bank is still that same dam that stands in the way of financial crimes; therefore, any violation of the law by its employees is fraught with the most serious consequences for the vital activity of the state.

Lawyers Think the Charges Were Fabricated

The lawyers of the suspects think that the majority of charges being brought will not be corroborated.

Valentina Khamidulina, who is representing the interests of R. Sitdikov, is convinced that the publications in the media on the subject of corruption in the Central Bank only create negative public opinion about the employees of the Bank of Russia.

In an interview with the weekly INTERFAKS-AIF she declared that the employees of the Investigative Committee of the RF MVD, who during the course of several years were engaged in the investigation of this case, were unable to prove the guilt of her client. V. Khamidulina thinks that a majority of the investigators' arguments cited in the criminal information against R. Sitdikov are fabricated, and in a number of cases even contradict the rules of law.

V. Khamidulina reported that this criminal case has already been turned over to the Moscow municipal court. She noted in this connection that she refuses to engage in polemics with authors of newspaper articles or the prosecuting attorneys or discuss the investigation materials outside a judicial meeting.

Another lawyer on this case, Irina Karpinskaya, indicated that in the course of the investigation the suspects' guilt was really not proven, inasmuch as none of the representatives of the commercial structures that have an account with the Central Operational Administration and that used its credits have admitted giving bribes at any time.

She also added that the accusation against the Central Operational Administration employees was built by the investigation on the evidence of only one person who, in addition, has been previously convicted and who before his involvement in this case was under an all-Russian

investigation for crimes previously committed. The start of the hearings was planned for 4 September in the Moscow municipal court, and afterwards, for 9 October; however, it was interrupted for various reasons. The weekly INTERFAKS-AIF has learned the meeting is now planned for 25 December.

***Diamond Official Views Impact of Draft Legislation**

964E0273A Moscow *SEGODNYA* in Russian
22 Nov 95 p 4

[Article by A. Naryshkina: "Sakha Russian Diamonds Company Approves First Option: Ready To Compromise With the Russian Federation Committee on Precious Metals and Precious Stones"]

[FBIS Translated Text] Vyacheslav Shtyrov, president of the Sakha Russian Diamonds Company (ARS), in a conversation with a *SEGODNYA* correspondent, declared that "we do not support radical measures." The discussion pertained to new possibilities that may be acquired by the company should the draft law on precious metals and precious stones which passed the State Duma go into effect. In accordance with that draft, the government has "first option" to raw materials that are mined, but the mining organization remains their owner. In that manner the participation of a government agency—Komdragmet [Russian Federation Committee on Precious Metals and Precious Stones]—in negotiations with De Beers is no longer a necessity.

Vyacheslav Shtyrov, however, while recognizing that fact, agrees that it is necessary to have strict government control over ARS activities. He believes that ideally the appropriate government commission must work out a directive for the ARS but must not conduct negotiations, granting that right to the company itself. Such a directive, according to Mr. Shtyrov, must establish certain boundaries within which the ARS can operate and should contain quotas for mandatory sales to the State Fund along with obligations of the government. The latter must guarantee not only payment for the raw material being acquired in accordance with the quota, but also fulfillment of the agreement, should one be concluded, between the ARS and De Beers (specifically, elimination of the practice of selling diamonds out of the State Fund, circumventing the agreement). Mr. Shtyrov noted that the decision to give ownership of the products to the producer is one of the "key points" of the draft law and is highly suitable for the company.

Mr. Shtyrov considers the second such point to be relations between the Federation and its subjects described in the draft, which allows the company to retain its former status as a joint Yakut-Russian firm. "The idea to the effect that the Yakuts have 'seized' ARS is a speculative notion. That is evidenced by the structure of the capital and the presence of the parties in the company's oversight committee."

The draft law expands the rights of Federation subjects somewhat in the management of their quotas. Still, the Yakut side decided to seek the help of ARS specialists. As reported by Vyacheslav Shtyrov, the new general agreement between the Government of Yakutia and ARS stipulates that the entire Yakut quota (25 percent of the diamonds mined there) will be sold through the ARS. That practice will be implemented as of January of next year. The president of the company noted "we would like to have it apply to all of Russia."

He likewise observed that ARS intends to participate in the elaboration of the Arkhangelsk project. "There is the danger that it will be taken over by our foreign competitors. De Beers, for example, participated in a closed tender directly, while other companies did so through figureheads." ARS is prepared to create the enterprise together with appropriate Arkhangelsk organizations, i.e. to take part in the development of the project as a partner.

Speaking about the future of the company, Mr. Shtyrov dwelt on one important fact. "We are categorically opposed to the privatization of ARS or the transfer of a block of our shares to the banks for management. We do not know who is behind those banks. For a certain period of time, so far it is difficult to say for how long, we must remain a government enterprise." Commenting on his position, Mr. Shtyrov mentioned the sad experience of the aluminum industry.

Theoretically, two weeks will pass between the time the draft law arrives in the Federation Council and the time it lands on the desk of President Yeltsin. It is quite possible that the new law will go into effect by December, which will mean a strengthening of the position occupied by ARS in the final stage of negotiations with De Beers. In addition to that, it will help protect the interests of the company in the program for development of the diamond complex, which has made so much noise. "Thus far our positions and those of Roskomdragmet, as the developer of the program, are different," Vyacheslav Shtyrov stated.

***Removing Taxes From Foreign, Domestic Investment Suggested**

964E0286C Moscow *ROSSIYSKAYA GAZETA*
in Russian 28 Nov 95 p 2

[Article by P. Bunich, deputy chairman of the Committee on Property, Privatization, and Economic Activity of the Russian Federation State Duma: "How Can Mrs. Investment Come to Terms with Mr. Taxes?"]

[FBIS Translated Text] The Archimedes screw of the economy, as investments are quite justifiably considered to be, is losing ground literally before our eyes. Even the draft budget-96 does not offer much hope in that regard—investments will decline by another 3 percent. What is the matter?

In accordance with the existing order, up to 50 percent of the profits used to finance fixed capital are tax exempt. Profits make up 9-11 percent of investment financing, and financial organs believe that such an exemption should remain only for the construction of production facilities. Its specific share in the national economy, however, is no more than one half. In other words, profits will make up 4-5 percent of investments.

But why not do the opposite—exempt all profits used for investment from tax along with the profits spent on repayment of investment credit and interest on it? That would cover 18-20 percent of investments, which is something. It would also be much more reliable than centralized capital investments financed by the taxpayer.

Profits, in turn, depend on the tax squeeze, the size of which is growing. This year taxes amounting to 8 percent of GDP were planned, but they actually came to 11 percent, while the plan for 1996 anticipates 13 percent, and who knows how much it will actually turn out to be.

High taxes, regardless of whether they are paid by entrepreneurs or other citizens, hinder investments. Taxes on entrepreneurs are clearly indirect taxation of the population through a decrease in free assets invested in stock investment funds, shares, etc.

Finance officials respond to criticism regarding rising taxes by stating that if you do not like them, then find ways of lowering expenditures. Another formula, however, is necessary: how to raise revenues. Undoubtedly by improving the collection of taxes. A very modest figure of 13 trillion rubles [R] was named, but in the process of discussing the budget in the Duma it was decided to raise it by several trillion. Still, that is not enough. It is known that there is a shortfall of 47 percent in excise tax collection, it is planned "take" 70 percent. Some 85 to 90 percent is what is needed. Customs officials collect no more than 70 percent of what should be collected, and smuggling is highly active while foreign trade contracts are frequently unprofitable—we export at a high price and import at dumping prices. Export duties on a number of consumer goods are set too low. At the same time the potential of foreign trade revenue is huge. It already accounts for a third of the revenues received by the treasury, and could provide up to 40 percent.

The next source for increasing taxes is a sharp cutback in tax exemptions. Something in that regard has been done this year and will continue into next year. This applies to R13 trillion in profits. It is planned to cut exemptions on an additional R8 trillion. That, however, is not enough, and it is also easier to make a decision than to implement it. An example of this is preferential

import terms, which are very difficult to get rid of. Just recently customs duty on American Mars and Snickers were cut in half and a similar decision is being made for products of a British chocolate factory. At the same time a proposal is being introduced to eliminate the exemption of imported technological equipment from value-added tax, which threatens the possibility of a technological breakthrough.

A heavy tax blow is aimed at small enterprises. At present they are exempt from the profits tax in the first two years of their operation, while in the third year they pay 25 percent, the fourth year—50 percent, and the fifth year—everything starts from the beginning. This benefit is a basic one for small business, and it is now planned to eliminate it along with investments that allow the quickest returns. And that with the existence of promises not to worsen economic conditions for a period of four years contained in the law on state support of small-scale entrepreneurship (1995).

Profits are eaten up not just by taxes but by highly profitable investments in government short-term bonds, state loan bonds, and other government securities. Revenues from them exceed the potential revenue from investments, diminishing their amount. It would not be too bad if the indicated securities were used to finance investment. But they are utilized to cover the budget deficit, which is far enough removed from direct capital investments.

Progress with respect to investments is connected with depreciation allotments. At present they are low and amount to 7 percent of GDP. In 1996 their share must rise to 14 percent. The specific share of depreciation is growing in capital investments: from 35 percent in 1995 to 57 percent in 1996 (in developed countries it equals 60-80 percent). Such growth will rely on bringing the evaluation of fixed capital up to its present-day figures, as well as on accelerated (doubled) depreciation, as well as on fines for use of the depreciation fund for purposes other than those designated for it—especially for payment of wages.

Profit is not something that is unchangeable, it depends both on builders and on investors. In Moscow, for instance, extensive housing construction is under way and next year it is planned to make 4 million square meters of housing available. At the same time, the demand is satisfied among the well-off strata of the population and housing prices are going down. Because of inflation, however, expenditures on overheads are steadily rising. Profits shrink and investors lose interest. The mayor's office, however, is improving conditions for building in a timely manner. Up to 60 percent of housing is being allocated for investors, as compared with 50 percent in the past. Housing is being sold on a 10-15 year installment payment plan. It is true that this increases costs, but buyers agree to it as it is more difficult to pay everything at once than in installments.

Moscow is also proposing to reintroduce the value-added tax exemption in housing construction, which will lower its cost by about 8 percent.

The share of long-term credit is growing slowly but steadily in the overall volume of credit investments in the country. That is promoted by a narrowing in the field of effective operations with "short" money. Transfer to "extended" money rests on the adoption of reliable tax legislation and the introduction of private ownership of land as the best subject for mortgaging in the acquisition of credit.

A certain contribution to investments in Russia is made by foreign capital. This year it provided \$1 billion, and \$2 billion is anticipated in 1996. If a law is adopted concerning agreements on the division of production, it is possible to expect a rise in foreign investments as early as by next year in the amount of several billion dollars.

But in attracting foreign investors it is necessary not to put them in a better position than domestic ones, as such an approach merely weakens the latter's stimulus to work.

According to the June (1995) government plan on changes and amendments in the law of the RSFSR [Russian Soviet Federated Socialist Republic] on foreign investments in the RSFSR, and drafts of amendments for laws on profit and value-added taxes and customs duties, it is proposed to introduce exemptions from profit taxes for direct foreign investments in the sphere of material production in priority branches and territories for a period of up to two years, while lowering their rate to 50 percent for the recovery period, but for no longer than five years with investment of the resulting profits in fixed capital. The question of ensuring that economic conditions do not deteriorate over five years is being studied, and there are proposals to exempt the deposits of foreign investors from value-added tax in a number of cases. These economic conditions should be offered to domestic investors as well. Or they should not be offered to either.

***Deputy Finance Minister on Draft Taxation Code**
964E0293A Moscow DELOVOY MIR in Russian
30 Nov 95 p 4, 5

[Interview with RF Deputy Minister of Finance Sergey Shatalov by DELOVOY MIR observer Moisey Gelman; place and date not given: "Taxation Policy Code: From Extortion of Income to Stimulation of Production?"]

[FBIS Translated Text] The subject of discussion at today's meeting of the government is the general part of the draft tax code of the Russian Federation—the philosophical and legal basis of taxation in the country. Its specifics are explained to our DELOVOY MIR observer Moisey Gelman by RF [Russian Fed-

eration] Deputy Minister of Finance Sergey Shatalov, under whose leadership it was developed.

[Gelman] Sergey Dmitriyevich, there are federal laws on the tax system and on collection of various types of taxes operating in our country. Why do we need a tax code?

[Shatalov] Many countries, like Russia today, are getting by with a certain set of laws on taxes. And they are living without codes. Just as certain countries, as for example England, are living without a constitution. There is nothing terrible about this. But the fact is that our laws on taxes were developed by different people at different times. Many of their principles are interpreted in a nonsynonymous manner. Some are invariably redundant, and many of them require corrections. In some cases, contradictions may be seen between the laws themselves. Oftentimes there is no adherence to terminological unity, the laws are expressed in a roundabout manner, etc. Therefore, the current laws on taxes are rather difficult to apply, and often they become the source of conflicts between the tax agencies and the taxpayers. At the same time, these laws do not contain many of the principles which concern the current situation in our economy. Instead of having several laws, which also require considerable amendments and thorough editing, it was decided that we should develop one big law, at the same time excluding all the shortcomings of the current ones. In other words, the code was to integrate all the positive aspects of the present laws and new legislative principles which would facilitate development of the tax system, including also in terms of the procedures, rights, and responsibilities of the subjects of taxation.

After the new code is adopted, the present tax laws will no longer be in effect.

[Gelman] What are the general principles of tax policy provided by the code in regard to legal entities?

[Shatalov] All the basic types of taxes are created for them: The VAT [value added tax], excise taxes, taxes on profit, etc. However, some of them will be changed in their essence. If we speak of VAT, it will become closer in function to its European counterparts, whose primary purpose is to accelerate capital turnover. Also, as of the start of next year (the Duma has adopted these amendments to the appropriate laws in the second reading), certain procedures of collecting VAT and the tax on profits, which evoke negative consequences for taxpayers, will be eliminated (the amendments have also been included in the code). Thus, now VAT paid in the course of acquisition of fixed capital will be deductible immediately after this capital is reflected in the balance, and not within six months after operational introduction. After all, the difference from the moment of its acquisition may be up to one or 1.5 years. Thus, the taxpayers' money will now be returned to circulation much faster. Moreover, interfirm loans will no longer be subject to taxation, and this should intensify production

of related enterprises. Taxation will be repealed on funds invested into the statutory capital, as well as on those received for performance of charter activity. The place of sale of goods and services will be clearly defined, which will make it possible to avoid dual taxation during export, or concealment of taxes altogether.

One other purely Russian procedure of application of VAT will also be eliminated. Today in capital construction the customer does not have the right to deduct VAT paid to the contractor. Therefore, this tax increases the balance cost of the object, and is then amortized over the entire time of operation of the object.

Thus, the innovations we have listed will make it possible to reduce the harm inflicted on the economic activity of enterprises. According to the code, the very collection of tax on profits will principally change. Today it is figured after certain expenditures which may be reflected in the production cost are deducted from the proceeds received by the enterprise and, we might add, according to the standards within the limits of which such expenditures are allowable. The draft code provides for figuring into the production cost all expenditures incurred by the enterprise relating to production and sale, and for deducting them from the proceeds. The remainder of these proceeds left over after such deduction shall be considered as the profit. If the draft code is adopted, many expenditures, specifically for advertising, will be deducted from the taxable profits. After all, without advertising, it would generally not be possible to sell many types of products, for example, perfume. Certain French perfume companies spend up to 40 percent of their total outlays on advertising. Otherwise, they would not win over the market. That is, these are strictly production expenditures. Yet in our country they are taxable. Moreover, they are taxable twice: At the enterprise itself and in the appropriate advertising firm. It would be fair to leave one tax: For the advertising firm, for which the expenditures of the customer for advertising, i.e., payment for it after deduction of expenditures, specifically represent the profit.

The procedure of computing amortization deductions will also change. Today they are standardized for individual objects, and the terms of amortization are significantly extended. It is presumed that now the fixed capital and nonmaterial assets will be subdivided into four or five groups, each of which will have its own amortization standards. And it will be computed not for each object, but by groups of objects, based on their summary cost. The terms of amortization will also be significantly reduced. Moreover, the depreciation will vary from year to year. The greatest will be in the first few years, which will make it possible to quickly write off a significant portion of the capital expenditures and to repay the funds borrowed for investments in the minimal time. Consequently, this will also stimulate and intensify investment activity. At the same time, the

accelerated amortization will make it possible to protect the funds against subsequent inflationary devaluation.

Speaking of amortization, I would like to point out the unjustified, as it seems, deductions from the fixed capital of privatized enterprises created in former years. After all, their current owner-stockholders did not spend funds for their acquisition, yet they nevertheless receive compensation for them. I believe that amortization in such cases should either be eliminated or the remaining deductions used in some way under the control of the state. Perhaps they may be directed into the budget for centralized crediting of federal programs.

The draft code also contains other innovations in regard to the tax on profit. Specifically, the plans call for allowing capitalization with subsequent amortization of expenditures for certain types of work: NIOKR [scientific research and experimental design work], ecological studies, survey and preparation of mineral deposits for exploitation, etc. In all these cases, the balance cost subject to amortization is increased by the sum of incurred expenditures.

The existing possibility of carryover of losses to the future is important for the economic activity of enterprises. We are speaking of the situation where a given reporting year has proved to be unprofitable for a goods producer (in which case he does not pay a tax), and the one following it is profitable. Then the goods producer may pay the tax only on part of the profits, and use the other portion to cover the losses. Losses may be covered for a period of five years in equal portions, but under the condition that in each subsequent year it is permissible to use no more than 50 percent of the obtained profits for such coverage. After which the debt must be repaid to the state. The new draft code removes limits from the application of profits for coverage of losses. It allows for even all the profits to be used for this purpose, and no tax paid in the year following the year in which a loss was shown. In this case, the enterprise will be able to emerge from crisis faster and to restore its taxable base, which is profitable both for the enterprise itself and for the state.

A strategic measure will be the consolidation of taxes on profits for a group of related enterprises operating for production of a common end product. These may be basic and subsidiary enterprises, or structural subdivisions of an enterprise having the status of a legal entity, i.e., individual taxpayers. In the case of such consolidation, the tax on profits will be collected from the end product, and the operations within the group will be viewed as intra-plant turnover and will not be subject to taxation (with the exception of VAT). In other words, the tax agency will view the group as a single enterprise with in-house prices on semi-finished products. Such a group, for reporting purposes, will submit a consolidated balance. In this case, due to reduction of the overall end profit, it will be possible to repay the losses of individual participants in this group, and con-

sequently thereby support the entire chain of production of the end product. This will prove to be profitable, even despite a certain decline in tax revenues to the budget. After all, under the current procedure of tax collection, the unprofitability of production of some intermediate product leads to discontinuation of output of the appropriate end product.

Today, up to half the profits may be "diverted" away from taxes, investing them into the development of production. Therefore, consolidation of taxation will also make it possible to intensify investments.

[Gelman] Obviously, such consolidation will also facilitate the structural reorganization of the economy, prompting enterprises toward integration according to technological chains of production. This is especially important for enterprises that have a long investment cycle, especially those such as the mining sectors in relation to metallurgical production, for which there are characteristically a large number of intermediate stages. But in this case, why is VAT on intermediate operations within the group not eliminated?

[Shatalov] Despite certain possible budget losses, the mechanism of consolidation of the tax on profits has found many supporters both in the government and in the Federal Assembly. However, under the current rather complex economic conditions, when a certain consolidated technological chain may experience a certain disruption and receipt of consolidated tax on profit will be delayed, the collection of VAT will ensure at least some income to the budget.

Evidently, the mechanism of consolidation will be introduced in 1997: It is already too late to incorporate it into next year's budget. However, it is necessary to adopt such a mechanism, despite all the current difficulties with tax collection. This strategic measure stimulates industrial production and will make it possible to expand the tax base.

Thus, if the new code is adopted, all taxes will be retained under their current names. Yet in terms of their effect on production, these will be different taxes, which stimulate and expand it. At the same time, it is proposed that many tax benefits be eliminated.

The new code will bring our system of taxation closer to that accepted in European countries.

[Gelman] Will there be a limit on total taxes, which today often reach up to 99 percent of the profits?

[Shatalov] No, there will not. To introduce such a substantiated limit, taking into consideration the collection of taxes on three levels, is a rather complicated matter. After, profits are distributed rather nonuniformly in the course of the year. Let us assume they set some limit

on the total tax. Who will divide it up, and by what criterion, into three unequal parts for the federal, regional, and local budgets? This will be especially hard to do in those cases when the real profit of enterprises proves to be much less than planned.

The problem of unlimited taxes does exist. It was intensified after the publication of the president's edict in December of 1993, which permitted regional and local administrations to establish any taxes for any taxpayers, without limitation of their amounts. And a real bacchanalia began in the local areas. Thus, for example, in Yakutia they introduced a 1,000 percent tax on exceeding the labor wage fund. And in Chuvashia they introduced a tax on decline in volumes of production. That is, an enterprise curtails production, and at the same time the tax pushes it to do so even more. There too, in Chuvashia, they introduced a tax on capital exported for investment outside the boundaries of the republic.

Many oblasts and republics have begun collecting customs payments for import and export of goods across their borders. This leads not only to total disintegration of the Russian economic space, but also provokes inflation, motivating all subjects of the Federation to act in similar manner.

If an enterprise operates on the territories of several regions or in different areas of the same region, all the corresponding authorities aspire to the same profits of this enterprise and it is subjected to taxation many times over.

The list of such examples may go on and on.

In order to somehow curtail the lack of limits in the collection, the draft code proposes introducing a closed (exhaustive) list of federal, regional, and local taxes. In this case, the code expresses the appropriate principles, including certain rules for determining the tax base and the taxpayers, as well as establishing maximum rates for each of the taxes. Guided by these principles, it will be possible to regulate various benefits, introduce progressive standards of taxation within the limits of these rates, etc. That is, the authorities of all levels will have a rather broad field of tax activity, but the field will be limited, which is not the case today.

[Gelman] What will change in the taxation of individuals?

[Shatalov] Certain rules will change for them. Instead of a multitude of taxes on property, it is proposed that a single tax on real [immovable] property be introduced, based on its market value. It will be introduced gradually, beginning in 1996. For this purpose, cadastres of land and buildings will be required, and it will also be

necessary to develop methodologies for appraising their value.

As for the income tax, it will be legislatively divided into federal and regional. Moreover, the procedure of its payment will remain as before.

[Gelman] The current system of collecting tax on profits requires 100 percent control over all bookkeeping and banking operations of enterprises. In other words, the system of tax control must be identical with the object of control itself. At the same time, In Moscow alone there are over 250 enterprises for each tax inspector. Therefore, the desire to identify all nonpayers is reminiscent of the effort to catch all the "rabbits" ["freeloaders"] on city transport.

How is the problem of control over tax collection resolved in the new code, and what measures are provided in regard to nonpayers and debtors?

[Shatalov] Total tax control is impossible. As in the U.S., in the presence of an appropriate automated computer system of control, only 2 percent of the taxpayers are audited. Nevertheless, there they collect 85 percent of the total possible sum of taxes. Thanks to new investments into the system, the U.S. intends to bring the amount of tax collection up to 90 percent. The taxpayers are controlled as a random sampling by groups, according to the law of random values. The above-mentioned automated system stores information on all bank payments and income of the country's taxpayers, making it possible to verify the data of declarations of the persons selected for audit. In this case, by means of subsequent application of criteria, they separate the "clean" from the "unclean." Without going into the essence of the methodology of such control, we must note its high effectiveness, which is confirmed by the high relative share of collected taxes. Of course, in regard to individuals, such control is difficult for certain well-known reasons.

We in Russia do not yet have such a system, and considerable means will be required for its creation. Nevertheless, the new draft code gives much more attention to control over collection of taxes than does the current legislation. It describes in rather precise detail the procedures for audits, grounds for conducting them, possibilities and terms for challenging their results, and so forth. In other words, the technology of control is regulated, as well as the rights and responsibilities of all the parties, including measures of compulsion (seizure of an account, writing off funds from an account, request for confiscation of property, etc.).

Due to the increase in the scope of the "shadow" economy and nonpayments, according to various estimates, from 30 to 40 percent of taxes are unpaid in our country. Therefore, the tax service is undergoing serious restructuring. Specifically, a joint data base is being created in conjunction with the customs service. In order to link up banks to this data base (as in the system of control in the U.S.), special legislation is needed. Moreover, the subsections of the tax service are becoming specialized by function: Auditing, appeals, imposition of sanctions, etc. Such division of labor will make it possible to more thoroughly and objectively control the collection of taxes (today the tax "investigator," "judge," and "prosecutor" are often united in one and the same person—the tax inspector).

The draft code also reinterprets certain sanctions in regard to debtors to the budget. The discussion primarily is about penalties. Unlike the effective legislation, the penalty is interpreted today not as a financial sanction, but as a forfeiture. In other words, it is interest for the use of state credit, moreover—arbitrary. Therefore, in this case it is proposed that the credit rate be set higher than that of ordinary commercial credit: in the amount of 1/300th of the Central Bank's refinancing rate for each overdue day. Such an interpretation of the penalty will make it possible to exempt from it those taxpayers who are not guilty of forfeiture. For example, privatized enterprises and legal successors of state enterprises, if privatization occurred prior to adoption of the new code. In the future, the code provides for mandatory notification of the tax service about the upcoming reorganization of an enterprise, so that at its instruction the legal successor would also be the successor of the debts, forfeiture, and fine sanctions. In this case, the tax service may temporarily stop the reorganization for the purpose of performing an audit inspection. We might add that issuance of the above-mentioned order is certainly not mandatory: The resolution of this question will be within the competency of the tax agency.

[Gelman] How is the new code to be implemented?

[Shatalov] The code will be introduced gradually, as the State Duma adopts its sections. It is presumed that the first, general part, will be submitted to legislators in December of this year. Evidently it will be the new complement of the State Duma that will adopt this section. Its implementation will have a positive effect on those tax laws that will be retained until the adoption of the entire code.

National Affairs

*Leftists Faulted for Populism

964F0485A Donetsk AKTSENT in Russian
28 Nov 95 p 2

[Article by L. Kozin: "Political Sclerosis or Political Card Tricks?"]

[FBIS Translated Text] Inconceivably cheap raw materials and extremely cynical deception are the load-bearing structures of a Bolshevik regime. For seven and a half decades, they reliably served as a support for the rulers of a country of a socialism that had triumphed over common sense. But time passed. The raw materials became fewer and fewer and the sea of hard currency dried up and turned into a barely trickling stream. The flagship "Glory to the CPSU!" buried itself in the silt. The cruiser "The Soviet Union" ran aground, while the crew and the passengers scattered in different directions. The orthodox communists were deprived of power. But they are still hoping to move the thoroughly rusted ships into deep water and to hold on them the usual position of helmsmen. The cardsharps still have one "true card" in the deck — deception. They have always used skillfully and impudently.

Everything was a deception. The party, the charter of which was written for some and not written for others. The trade unions which cringed timidly before the leadership. The Komsomol with its active members, hourly concerned by the crashing and the career-oriented "sideways step with a slight hop" mastered in the corridors of the "white houses." Also a deception was the unity of the Army and the people, a unity, against which mothers wailed at the induction centers while giving up their sons to the Afghan war or into the clutches of favoritism. The Soviet state's peace-loving foreign policy, which drove to their knees any people who attempted to live differently, was a deception. The so-called civil liberties within the country, which had been declared against the background of the camps, the psychiatric labels, the fifth column, and so on and so forth, were also complete lies.

And then came the crash.

Now the orthodox [communists], no longer concerned with the retention of power but rather with the struggle for it, are again using their favorite method—deception. At times, a crude and blunt deception. At times, a subtle deception, when it is possible to speak the truth, but not the whole truth. Or when it is possible to keep silent. Or to remove the emphases. Or to use pure sophistry (the conscious application of erroneous arguments in order to delude).... Who was at the communist meetings could be ascertained for sure by listening to the slogans. "We will not permit the plundering of the country" (as if the former party hacks had concerned themselves with the maximization of the national wealth). "We will not tolerate the drain of scientific brains from the country" (as if, when the CPSU was in power, professors had not

been given wages lower than those of an ordinary guard at the subway entrance)....

Yesterday's squanderers of state property are terribly concerned by the fact that today, in their opinion, there is no drive for economy. One socialist activist said sadly at a fall meeting that the commercial trade outlets are consuming a lot of electricity. The highly principled followers recalled the thriftiness of those who erected the costly buildings of the century, which were not needed by anyone. They are troubled by the export abroad of material and spiritual valuables and the enticing of specialists to the West, but, at the same time, they are bashfully silent about the expulsion of a large group of scientists from Russia by Vladimir Ilich [Lenin], about the permanent "gifts" of the best works of Russian and world art to American millionaire A. Hammer, and so on.

Sophistry is popular in contemporary leftist journalism. We read in one of the local newspapers: "Right here in Donetsk Oblast, we have the costliest standard of living, such as does not exist in any other region of Ukraine, and the most unfavorable ecological situation.... Who brought the oblast to such a condition, it appears, is clear to everyone." The ecological catastrophe did not begin today, or even yesterday, it was consciously planned by the Communist Party and the Soviet Government. Yes, consciously. After all, the leaders of the people, who ordered the construction of mine after mine and plant after plant within the boundaries of the cities, were not always senile. And how could the prices be other than high in comparison, for example, with the nonindustrial oblasts, in a region which is the most high-paying one (on the average, of course) because of a number of professions?! In fact, it is clear who brought us all to this. Those same helmsmen from the ships "Glory to the CPSU!" and "The Soviet Union."

In the summer of last year new people came to the region's leadership. The oblast is not an island in the ocean. It is inseparably linked with the sick body of the entire country. And the hard life came to us by no means with the results of last year's elections, but rather, first, much earlier and, second, it is like that not just here, but everywhere. But the "friends of the people," knowing this quite well, write cunningly: "Most of the oblast's inhabitants are at or far below the poverty line...."

There are people of various views among our newspaper's readers: rightists and leftists. But it is precisely the latter who are notable for dogmatism. The amount of foul language contained in some responses to journalists' materials! "You are pouring dirt on Soviet authority." But is it possible to pour dirt on that which itself originally produced the dirt? Authority hostile toward humanity, authority that taught children to betray parents, authority that banned speaking and thinking freely,

authority that drove millions behind barbed wire. Authority that only a slave can applaud.

It is possible to confuse the people with deception once again, but guaranteeing them an adequate existence by deception will hardly succeed. However, yesterday's leaders remain eternally hopeful of returning to their ships. For, as V. Korolenko wrote, "the fleet has been vanquished, but the naval headquarters routines remain." Clinging convulsively to these routines are the sophists who are dreaming of carrying society away with "Left Flank, March."

Reports on Franchuk Removal Denied

964F0509A Simferopol KRYMSKIYE IZVESTIYA
in Russian 2 Dec 95 p 1

[Unattributed report: "L. Lomakin, Press Secretary of the Chairman of the Supreme Council of Crimea, Informs"]

[FBIS Translated Text] I am authorized to report the following in connection with the appearance in the mass media of publications and communications about an impending report of the Government of Crimea as a planned action that pursues as its single purpose the resignation of the prime minister of the Government of Crimea:

In the 14 months after the confirmation at a session of the Supreme Council of Crimea of the current staff of the Government of Crimea, a full-scale report of its work was not heard once.

The "Report of the Government of Crimea" question was included on the agenda of the third session during its formation on 11 September 1995, about which the government and its head, A. Franchuk, were informed in a timely manner.

On 2 November 1995 the date was set for the examination of this question at a meeting of the third session on 6 December 1995.

On 4 November 1995, after the date was set for the examination of the question, a letter was sent to Prime Minister of the Government of Crimea A. Franchuk with a request to submit by 16 November 1995 the theses of the report and information material on the report. On 22 November a second letter with a similar proposal was sent in which the attention of the prime minister of the government was invited to the untimeliness of the implementation of the Supreme Council of Crimea decree and the possible disruption in the dates for the preparation of the question at a meeting of the session.

Speaking on Chairman Day—on 28 November of this year—which was conducted by the Supreme Council

of Crimea for the managers of municipal and rayon councils of people's deputies, Ye. Suprunyuk informed its members about the motivation of the report being prepared by the government. In particular, he asked the managers of cities and rayons to assess a report such as this not as a political action but as a planned report of the government concerning the work that was accomplished during the past year.

Inasmuch as attempts are being undertaken on the part of a number of members of the government to frustrate an examination of this question at a meeting of the third session, and also in connection with their increasingly frequent disregard of the requirement to submit the necessary information concerning implementation of the decree of the Supreme Council and the Presidium of the Supreme Council of Crimea, the head of parliament, Ye. Suprunyuk, spoke at a meeting of the government on 30 November 1995.

In particular, he asked the Government of Crimea to take into consideration the fact that in only two of the 28 decrees of the Supreme Council of Crimea and its Presidium associated with the activity of the government was information on implementation submitted in a timely way. Information on the progress of implementation arrived with a violation of dates on 20 control decrees, and since June of 1995 the Supreme Council of Crimea has not received information from the government on six decrees to the present day.

In addition, of 17 instructions with specific dates of implementation, timely information from the Government of Crimea was not submitted on even one of them.

Chairman of the Supreme Council of Crimea Ye. Suprunyuk invited the attention of the members of the government to cases of untimely implementation of the inquiries of deputies of the Supreme Council on questions concerning the work of the government. Answers were received to only seven of 22 deputy inquiries on the date established by the law of the Republic of Crimea "On the Status of the Supreme Council of Crimea." The inquiry of Deputy V. Korolev (concerning the heating of building No. 77 on Kechkemet'skaya Street in the city of Simferopol) submitted in January 1995 may serve as an example of the careless attitude toward this work. The final answer was received only in November of 1995; i.e., 10 months later.

In 15 of the 22 deputy inquiries sent to the Government of Crimea, answers were received with a violation of the established dates.

Regarding the status on 28 November, according to official documents the chairman of the Supreme Council of Crimea issued 25 instructions to the Government of Crimea, of which 18 were monitored in accordance with an instruction of the chairman. Of these, only nine were completed on time, and the rest either missed the dates or are in the Government of Crimea in a stage of examination. There were also cases of formal answers. Thus, to a telegram concerning the payment of wages to teachers that arrived from Dzhankoy with a resolution of the chairman of the Supreme Council to immediately transfer it to Prime Minister of the Government A. Franchuk for a decision with a subsequent report on the results, on 25 November 1995 an answer arrived from the Ministry of Finance of Crimea about the impossibility of deciding this question.

No one has any doubt that the Government of Crimea is working under difficult conditions. The insolubility of many problems is associated with the absence of scope of differentiation of powers between Ukraine and Crimea. But despite individual positive achievements and the resolution of a number of problems in the period of work of the government, it is necessary to acknowledge that the government has been unable to achieve overall stabilization of the socioeconomic situation in the republic.

In connection with the aforementioned facts, the report of the Government of Crimea at the meeting of the third session of the Supreme Council is not only timely and extremely justified but requires an objective and tough evaluation.

Armenia

Party Journal Editorial on Dashnak Meeting

964F0546A Yerevan GOLOS ARMENII in Russian
23 Nov 95 pp 1, 3

[Unattributed article: "ARFD Problems Discussed"]

[FBIS Translated Text] As we know, exactly one week ago, on 15 November, the 26th General Assembly of ARF Dashnaksutyun [Armenian Revolutionary Federation (Dashnak)] opened in Beirut. About 100 representatives of party chapters operating throughout the world are taking part in its work. Although the agenda of the General Assembly is fairly saturated and includes several dozen points, the central issues here will be those related to evaluation of Dashnaksutyun activity in Armenia, to possible significant structural changes which may include the establishment of two bureaus, and to the elaboration and clarification of party tactics under conditions of suspended activity of the party in the Motherland. Naturally, the opinion of the delegation of Armenia will be decisive in this regard. This delegation is most impressive, incidentally, and includes a great number of delegates with the right of deciding vote. It is expected that the work of the 26th General Assembly of ARF Dashnaksutyun will continue for another two weeks.

Entirely understandably, the main theme propagated in the Dashnak press throughout the world these days has been precisely this event. The reader's attention is directed to the editorial appearing in the journal DROSHAK, official publication of the ARF Dashnaksutyun Bureau published in Athens.

"The General Assembly—A Triumph of Truth"

These lines are likely the most difficult of those being written during our latest period. Difficult because the entire Dashnak family is on the threshold of a turning point. Joining anticipation with confidence, hesitation with resoluteness, all our thoughts and visions are directed towards the General Assembly of ARF Dashnaksutyun, to those two or three weeks in November during which about 100 Dashnak delegates, arriving from various countries of the world exclusively for this reason, will discuss a great many complicated questions and issues. Everyone is awaiting clear-cut answers and fundamental decisions from this General Assembly since it is evident that we cannot go on as before. Dashnaksutyun finds itself in a situation from which it will either emerge strong and organized, confident in itself and in its potential, or one in which the temporary retreat continues and becomes a chronic phenomenon.

The General Assembly must first of all provide an answer to why, for what reasons, Dashnaksutyun has been unable to firmly establish itself in the Motherland, why it has not become the collective force our people so clearly need in this difficult and decisive stage of their existence. In no way ignoring the significance of ex-

ternal circumstances and bearing in mind the intensified anti-Dashnak efforts of the present authorities, we must look for mistakes and significant failings in our own activity and conduct as well, as a result of which our organization in Armenia today finds itself in an extremely difficult predicament. Every mistake and every slip has its own specific origin. And so, questions of personal and collective responsibility will be put before the General Assembly. An assessment will be made of the activity of our various structures and individual comrades who have essentially failed in particular instances to accomplish their work in the spheres entrusted to them. Such phenomena in the activity of Dashnaksutyun in Armenia as inadequate consistency, falling behind events, constant changes in tactics, inability to distinguish what is important from what is not, stagnation of a party nomenclature that was very quick to consolidate itself, individual attempts to evade responsibility and merely simulate activity—all these provide evidence of such failure. To date the mission assigned to Dashnaksutyun in our now independent Motherland has not materialized. Following the stagnant days of communism, our people have not found the real Dashnaksutyun within themselves, alongside themselves, or ahead of themselves. They have not become acquainted with its essence and true image. In the final analysis, of course, we will not forget the unique activity of the ARF in Karabakh in 1990-1993, but here the question arises: Why does that which was successfully achieved in Karabakh turn out to be impossible to accomplish in Armenia? Is it possible the explanation lies in the military nature of that situation, that creative approaches and everyday intensive effort are not intrinsic to Dashnaksutyun? History itself provides evidence to the contrary. Thus there are other, very deep-rooted reasons for the failures which the General Assembly is obliged to uncover.

Beyond any doubt, the difficulties being experienced by Armenia's organization must not cause us to forget about the problems confronting our organizational structures abroad—first and foremost about the processes underway in the diaspora, about new realities which have taken shape as a result of emigration from the Motherland. Also fundamental here is the question of how forces attempting to dislodge Dashnaksutyun from the political arena have been able to uncover flaws and drag the party into a judicial phase, during which normal activity is disrupted for a lengthy period and a situation requiring purely responsive actions is imposed. The criminal accusations presented during the course of this phase bear no relationship to the pure national image and activity of the ARF.

The tremendous natural desire of Dashnaksutyun to operate legally in Armenia and its resoluteness in holding fast to its value system require changes in the structure and methods of directing the party. Here too it is the responsibility of the General Assembly to choose the best alternative. Present in all the situations con-

fronting our organization is the task of modernization in the light of the political, economic, social, and psychological changes taking place in the world. It is very important that the General Assembly develop proper tactics and balanced approaches in this regard, avoiding panicky haste but proceeding without delay as well. We are in a difficult position—this is all quite true. But knowing the character of Dashnaksutyun, knowing its intrinsic capabilities, we are convinced that we will successfully overcome this stage of events as well, thanks to the decisions of our General Assembly. There is no other way. In the Motherland which has acquired new independence, and for all the Armenian people, the mission of Dashnaksutyun must be fulfilled. Regardless of internal and external conditions, Dashnaksutyun is pre-ordained to accomplish this mission, the mission entrusted solely to it.

Yes, it has been difficult to compose these lines. But DROSHAK personnel can testify to the fact that they were written with a joyous heart and elevated mood, since the General Assembly of Dashnaksutyun will constitute primarily a triumph of the truth.

Results of Dashnak Assembly Outlined

964F0546B Yerevan RESPUBLIKA ARMENIYA
in Russian 6 Dec 95 p 1

[News Department report: "Dashnaksutyun Strives To Re-Establish Itself in Armenia—Will Formal Reforms Lead to Substantive Changes?"]

[FBIS Translated Text] As we have already reported, the General Assembly (Congress) of the Dashnaksutyun Party is presently being held in the Lebanese capital of Beirut. Yesterday the highest party organ adopted the program declaration, structured to a great extent on traditional ideological principles of the ARFD [Armenian Revolutionary Federation (Dashnak)].

Specifically, the document states that the party intends to continue in pursuit of recognition of the genocide of 1915 and of satisfaction of the so-called "territorial claims of the Armenian people." The declaration also states that the ARFD advocates reinforcement of the state sovereignty both of the Republic of Armenia and of the Republic of Nagorno-Karabakh, and in the future—a "free, independent, unified Armenia."

Armenian national-socialists maintain their sharp opposition to the present republic leadership. This time, however, they believe that replacement of the authority can take place only through peaceful means. In this regard it is being asserted that the ARFD has always maintained this position. Of course, such a statement constitutes nonsense for a revolutionary party. One is forced to think that either Dashnaksutyun is prepared to reject the definition of "revolution" in its name (with all the ensuing consequences related to program principles) or that all this is being said with political considerations of the moment in mind.

In addition, the Congress has resolved that from this time forward the Armenian organization ARFD must not be directed from abroad. To this end, the ARFD must establish "its own" leading organs in Armenia—a Supreme Assembly and supreme organ elected by it. Evidently, these structures will be considered de jure independent of the party's staff headquarters in Athens. It is likely, in the opinion of General Assembly participants, that division of the party into two formally independent organizations will enable it to overcome one of the main legal obstacles standing in the way of renewal of activity of the ARFD in the republic.

For the time being it is difficult to judge whether or not the essentially formal reforms the Congress decides to pursue following a stormy three-week debate will be capable of bringing about substantive changes. Will what takes place mark the start of construction of a new, parliamentary type of party truly independent of the views, ideological principles, and money of the traditional staff headquarters? Or will all this devolve into a superficial, cosmetic operation designed to conceal the true countenance of the ARFD? Time will provide the answers to these questions, and the fate of Dashnaksutyun depends upon them.

New Dashnak Bureau Members Noted

964F0561A Yerevan GOLOS ARMENII in Russian
7 Dec 95 p 2

[Unattributed report: "National Unity Above All Else"]

[FBIS Translated Text] The 26th ARF Dashnaksutyun [Armenia Revolutionary Federation (Dashnak)] General Assembly has completed its business in Beirut. The following new party bureau was elected at the assembly: Karo Armenyan, Abo Pogikyan (United States), Vigen Ovsepyan (Canada), Beno Tondzhyan, Mkrtich Mkrtchyan (Lebanon), Mario Nalbandyan (Argentina), Tamul Oganyan (Iran), and Masis Bagdasaryan and Martun Mamevosyan (Armenia).

The General Assembly adopted a statement, which observes, in part, that the need for national unity and the "One Nation, One Motherland" principle should be above all transient issues.

The statement categorically rejects the "aspiration to a change of power" ascribed to the Dashnaksutyun and confirms that "the Dashnaksutyun has been opposed to any step aimed at destabilization and, hereby, at a weakening of our newly acquired independent statehood."

The statement goes on to say that "Based on the discussions that were held, the opinions that were offered, and the decisions that were adopted, the 26th ARF General Assembly states that:

"a) the ARF Dashnaksutyun will continue to uphold the territorial claims of the Armenian people, demand recognition of the genocide of Armenians and compensation, and seek to ensure that the authorities of Armenia

act in this direction and assist the forces fighting for a solution of the Armenian question.

"b) The ARF Dashnaksutyun will contribute to a strengthening of the independent statehood of the Republic of Armenia and the Nagorno-Karabakh Republic as the basis of the creation of a Free, Independent, and United Armenia.

"c) The ARF Dashnaksutyun will struggle with all the means at its disposal against any danger threatening the Republic of Armenia and the Nagorno-Karabakh Republic, from whatever force or state it emanate.

"d) While confirming as the basic principle the independence of its political line and the self-sufficiency of its orientation, the ARF Dashnaksutyun will continue to develop relations with forces operating in the international arena, specifically with Armenia's neighbors Iran and Russia.

"e) The ARF Dashnaksutyun will channel all its possibilities into the surmounting of the socioeconomic crisis, struggling against the social polarization of its people and championing the rights and interests of its needy strata....

"f) The position of the ARF Dashnaksutyun in respect to the authorities of Armenia is conditioned by general national interests. The ARF will subsequently be a democratic position, proceeding from the need to neutralize and correct mistakes that are made. The Dashnaksutyun is a scrupulous foe, and will remain such in the future also, of a forcible change of power in Armenia by any force.

"The ARF Dashnaksutyun believes that a blow directed against any part of the Armenian people is directed against the entire Armenian people and their power.

"g) Both in Armenia and in the diaspora the Dashnaksutyun will oppose a policy of the authorities of the Republic of Armenia aimed at the division and neutralization of national structures and parties, uniting around this goal domestic and overseas national forces and acting in the name of the mutual understanding, cooperation, and unity of Armenia and the diaspora at the popular and official-policy levels.

"h) For the assumption of full responsibility for the national cause of a resolution of the problems of Armenia, Artsakh, and the Armenian people as a whole the ARF Dashnaksutyun considers essential the unrestricted activity of the ARF Armenia organization, to which the establishment of normal relations between the authorities of the Republic of Armenia and the ARF Dashnaksutyun would contribute. Considering the present reality of Armenia, the Armenia organization shall henceforward operate under the leadership of the Armenia Supreme Assembly and the supreme institution it elects."

Azerbaijan

Postelection Party Maneuvering Examined

964F0573A Baku ZERKALO in Russian 2 Dec 95
No 45, p 2

[Article by N. Aliyev: "We Will Yet Have Our Say"]

[FBIS Translated Text] The leaders of certain pro-government parties are astonished—why do people who are not so entitled have seats in parliament, and they do not?

To all appearances, the parties that had until recently declared their support for the policy being pursued by the president will over the next several weeks be the focus of attention of the politicized part of society. Our newspaper has already addressed the issue of how this part of the political spectrum may influence the distribution of forces in the political arena.

The uncertainty in the camp of the parties supporting the government will, by all accounts, persist until 4 February, until parliamentary elections in several remaining districts have been held. Despite the defeat of the above-mentioned political forces (excluding New Azerbaijan, of course), the leaders of these organizations have not yet lost all opportunities. Many loyal politicians, anticipating in advance, evidently, the unsuccessful performance at the elections of the parties they head, ran for parliament not by party slate but in single-member districts. Abutalyb Samedov, for example, leader of the Alliance for Azerbaijan, ran in Sumgait. The results of the ballot in his district were annulled, and new elections were scheduled. Now, as we have learned, fearing, most likely, a repetition of the results of the 12 November, the party headed by A. Samedov has dispatched its forces to campaign in Sumgait.

Generally, politicians loyal to the government have still not recovered from their so unsuccessful performance at the elections. Many of them in confidential conversations with our correspondent have said that such results came as a great surprise to them. Typical in this respect is the recent statement of the Ana Veten Party (AVP), which says that "the AVP's loss was caused by current realities and the mentality of the country's population." The document observes that, considering the historic significance of the parliamentary elections and the referendum on the new constitution, Ana Veten recognizes them as a first step on the path of democracy. "The shortcomings in the course of the ballot on 12 November are natural for the transitional period through which the state is passing."

It is clear that it was not that easy for the AVP to issue such a statement, particularly if we recall the altercation between the Ana Veten leadership and Ali Kerimov, deputy chairman of the People's Front. "We regard the statement by Ali Kerimov, leader of the PNFA [Azerbaijan People's Front Party], concerning the

ballot-rigging that allegedly took place in the Central Election Commission in favor of our party as slander and the latest reckless gamble." The conflict occurred before the final results of the proportional-system voting were known, but not waiting for the publication of the election results, the AVP leadership declared that "Ana Veten's success has been predetermined by the party's five years of high-minded activity, the consistent defense of statehood, the high intellectual potential, and a successful campaign. Considering this, our party's chances of success were far greater than those of the PNFA, which, having been in power for a year, conclusively lost its social support as a result of serious errors. We are sure that the election results will bear this out," the Ana Veten statement emphasized.

But the election results showed something else entirely—three PNFA representatives made it into parliament, not one representative of Ana Veten did so.

In any event, as long as there remains if only the slightest chance of getting into parliament, there will be no pronounced departure from the former policy for several comparatively small parties that support the government. But certain signs of an exacerbation of the atmosphere which could change the situation in Azerbaijan's political arena to a considerable extent are noticeable even now.

It is essential that the parties that supported the president find their place in Azerbaijan's political life. They were not confronted by this problem prior to the elections—declaring that they were supporters of the national leadership, they obtained for this certain privileges and lived pretty well. But following the election defeat, in order not to vanish from the political arena they need to find some path of their own.

How should they operate? There is only one possibility here—the anticipated change of the parties' political reference points. But the change must not be abrupt. Were the Ana Veten Party, for example, to change its former course, this would undoubtedly cause an outflow of a considerable number of AVP members and would destroy the party's image completely. But remaining in the same positions, the AVP would ingloriously "vegetate" in the shadow of the New Azerbaijan presidential party. The same fate would, most likely, await the other pro-government parties also.

Responding to the ZERKALO correspondent's question concerning the AVP's possible change of political course, Aziz Alekperli, deputy chairman of the Ana Veten Party, declared: "The AVP has its own political line, and regardless of the results of the November elections, our party has no intention of changing course. We are not one of those political organizations that change course after every defeat. The rumors of this are totally unfounded. Our position has always been centrist. The AVP was the sponsor of the creation of the center bloc. So a switch to the opposition is impossible for us."

But concealed dissatisfaction may be felt in A. Alekperli's responses to other questions of our correspondent. Commenting on his defeat at the elections, A. Alekperli said: "Ana Veten was unable at these elections to satisfy its claims and be represented in parliament. But had a majority of the Azerbaijani people turned out, the AVP would have obtained seats. In addition, there is no doubt that certain measures were adopted at the polling stations to reduce the number of votes cast for our party. Whatever, elections are not everything. They absolutely do not decide the fate of a single party, Ana Veten included. The struggle is still to come. There will yet be an opportunity in the country's political life for our party to have its say, and the Azerbaijani people will witness this. The absence of AVP representatives in parliament has caused great astonishment in the nation, and with us also. Ultimately we will occupy our seats. We have the political strength, the intellectual potential, and the moral rights for this. I am astonished that people who are not so entitled have seats in parliament, and Ana Veten does not. We believe that this injustice will be removed."

The situation with the Democratic Independence of Azerbaijan Party is no less complicated. Lest it disappear in the shadow of New Azerbaijan, the PDNA [Democratic Independence of Azerbaijan Party] has to really be a center party and to pursue an independent policy. And, truly, following the scandal connected with the dismissal from the office of state secretary of Gabil Guseynli, its former leader, the leadership of the PDNA has been exerting considerable effort for this. But.... There are great doubts here. The PDNA leaders formerly left the ranks of the National Independence of Azerbaijan Party. And left, in the opinion of some observers, by no means from ideological considerations. So the PDNA will hardly become an influential center party with a new ideology.

The crisis in the camp of the pro-government parties has affected all political organizations. Even the New Azerbaijan party is no exception, apparently. Information about a change of leadership of this party which is in the works has appeared recently. The people who, it is presumed, could take charge of the party in place of Ali Nagiyev are being named even. According to unconfirmed, but apparently reliable, information, one such candidate is Vagif Aliyev, deputy minister for youth and sport.

Prospects for Party Cooperation Assessed

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No 45, p 4

[N. Aliyev article: "Will the People's Front and the National Independence Party Find a Common Language?"

The Remarks of Spokesmen for the Leadership of These Parties Are Contradictory")

[FBIS Translated Text] Despite the fact that the election results confirmed the opinion that the main political struggle will unfold outside of parliament, there is no doubt that both the distribution of forces and the further development of events in the new National Assembly will exert a pronounced influence on the political life of the country.

The struggle for seats in the National Assembly is not yet over. There is little that the several remaining vacant seats in parliament will decide for the authorities—the majority of deputies are composed of members of the president's New Azerbaijan party and sympathizers. For the opposition, however, several seats more would be of great significance. It is for this reason that almost all the largest opposition political organizations (except for the communists)—the National Independence Party, the Azerbaijan People's Front, and Musavat—intend to put up their candidates in all districts in which repeat parliamentary elections will be held on 4 February.

For the Musavat Party this is all the more important in that the sole candidate from this political organization to make it to the second round of the ballot—MP [Musavat Party] Secretary Nasib Nasibzade—did not get elected to parliament on 26 November. Musavat Secretary Arif Gadzhiyev told the Khabar-Servis Agency: "In view of the passiveness of the electorate, the second round of elections to the National Assembly in the 10th Second Khatainskiy Electoral District, in which Nasib Nasibzade and Gamlet Isayev, president of the Khazar University were running, was invalid." "Both the bad weather and the propaganda, which was inadequately organized by the authorities, may be considered the reason for the public's passiveness in the second round," A. Gadzhiyev declared. The situation was the same, according to him, in other electoral districts also since the authorities had no interest in the elections in them being valid.

Commenting on the results of the elections, the Musavat secretary declared that the national leadership did not from the outset plan to accord this party seats in parliament since "it considers it the main alternative to itself." To a question as to how Musavat's removal from active political life will be reflected in the party's authority, Arif Gadzhiyev replied: "This will have a dual influence. It is clear that the authorities themselves moved to politically polarize society, and we will in this connection continue assertive political activity—via the press, our branches in the regions, and so forth. If on the one hand our nonparticipation in parliament will lessen Musavat's authority, the public will, on the other, understand our real strength."

Many people still remember the debate that unfolded directly prior to the elections—"should the opposition boycott them or not." It was decided at that time not to boycott the elections. Now, it seems, this question is

being raised once again. A. Gadzhiyev announced that a Musavat assembly, which would discuss the question of the MP's participation in the ballot on 4 February, would be held on 9 December. "Opinions differ on this score, but I myself am opposed to our participation," the MP secretary said.

Now, though, a boycott has absolutely no significance. The elections were valid in the vast majority of districts, the opposition took part, and parliament has a quorum. One of the main problems now is that of the formation of parliamentary factions. The information on this score is very contradictory. But this is understandable. The real opposition in the National Assembly constitutes the minority, and this despite the fact that, according to Academician Ziya Buniyatov, who heads the New Azerbaijan party slate, "the New Azerbaijan party faction in the new parliament will consist of 49 deputies, but it cannot be ruled out that it will expand subsequently."

In an interview with Khabar-Servis, Z. Buniyatov declared that, in his opinion, Murtuz Aleskerov, president of Baku State University, would, most likely, be appointed chairman of the faction. The academician also expressed unhappiness at the refusal of deputies from the Azerbaijan People's Front Party and the National Independence Party to take part at parliament's first meeting in the work of various commissions and at the attempts to frustrate a quorum.

Khabar-Servis learned from sources close to parliamentary circles that, according to the draft standing orders, an association of a minimum of 10 deputies will be needed to form a parliamentary faction. If this clause of the standing orders is adopted, representatives of the opposition parties—the PNFA [Azerbaijan People's Front Party] and the PNNA [National Independence of Azerbaijan Party]—will be unable to register independent factions. So in order to have an opportunity to really influence the work of parliament and, generally, to create their own faction a unification of the opposition represented only by the People's Front and the PNNA is essential. It remains unclear whether the leaders of the PNFA and the PNNA can overcome their mutual animosity.

Meanwhile, the process is under way, by all accounts. At least, the remarks of the leaders of the People's Front are no longer that implacable. Commenting on the possibility of the creation of factions in the new parliament, Ali Kerimov, a leader of the Azerbaijan People's Front Party, observed that a minimum number of deputies for the formation of a faction should not be established in the parliamentary standing orders. "The parties' surmounting of the 8 percent barrier at the elections presupposes in itself the functioning in parliament of party factions."

A. Kerimov did not rule out the possibility of the unification of deputies from the PNFA and the PNNA in a single faction, despite the serious disagreements between their leaders that had occurred in the past.

"Policy should be based on a view to the future, not the past. Everything will depend on how the PNNA conducts itself in parliamentary activity," A. Kerimov said.

The position of the leadership of the National Independence Party, however, is far stricter. Nazim Imanov, deputy chairman of the PNNA, totally repudiated in an interview with the KHABAR-SERVIS Agency the information to the effect that negotiations were under way between the PNFA and the PNNA on the creation in parliament of a united opposition faction. N. Imanov emphasized that up to the present this matter had not been discussed, and the possibility of the creation of a united faction should first be discussed by the party leadership.

Speaking in an interview with KHABAR-SERVIS on the possible alignment of forces in the new National Assembly, the political scientist Rasim Musabekov, a member of the board of the Musavat Party, which has in principle lost the opportunity of being represented in parliament, said: "In my view, the correlation of forces in the new parliament will be as follows: 100 deputies, 70 of whom are 'iron' supporters of Geydar Aliyev, will present the positions of the leadership, and 30 deputies who could when times are difficult desert to the other camp. Approximately 10 of the 'people's elect' will play no part, and 15 deputies will 'depict the opposition' since there will be no real opposition in the present parliament."

In R. Musabekov's opinion, the formation of a faction of deputies would make possible the consolidation of representatives of the real opposition—from the PNFA and the PNNA. But whether the PNNA and the PNFA can find a common language, the near future will show.

First Session of New Parliament Analyzed

954F0572A Moscow NEZAVISIMAYA GAZETA
in Russian 2 Dec 95 p 3

[Article by Elmir Akhmedly: "Geydar Aliyev Proud of the Milli Mejlis"]

[FBIS Translated Text] During the course of the first session of the National Assembly of Azerbaijan, not only were organizational issues resolved but, as might be expected, factions in opposition to the authority were brought to light. Be that as it may, the first session of the National Assembly of Azerbaijan following the declaration of independence of the republic is an historic event. In contrast to the opposition, both the president and the speaker of the new parliament are placing new hopes in the recently elected Milli Mejlis. They believe that it is the activity of this very parliament that will facilitate the republic's emergence from overall crisis. Although the new parliament has not yet managed to prove its constructive abilities or conformance to the times, Azerbaijan's President Geydar Aliyev stated with delight at the first parliamentary session that this body can be proud

of itself. The 96 deputies include five poets, five writers, five academicians, and 20 professors and candidates of science. Women comprise one-seventh of the parliament. Eight parties are represented therein, representatives of which were elected from both proportional and majority-based districts. We note that the majority of parliamentary deputies are supporters of Geydar Aliyev. The irreconcilable opposition in the parliament consists of deputies of the People's Front of Azerbaijan party [PNFA].

The course of the first session provides grounds for assuming that the Party of National Independence of Azerbaijan [PNNA] will be transformed into one of irreconcilable opposition. There can be no doubt but that finding themselves in the wretched minority, the PNFA and PNNA will unite. Ali Kerimov, deputy chairman of the People's Front of Azerbaijan party, does not rule out this possibility, although the parties have in no way managed to date to join forces. A united PNNA and PNFA, joining efforts against the Central Electoral Commission, was smashed to smithereens by a counter-onslaught from the Yeni Azerbaijan [New Azerbaijan] party. Following presentation of the report of the Central Electoral Commission chairman, PNNA and PNFA representatives made an attempt to prove that a great many gross violations were committed during the tallying of the vote, resulting in two seats each being taken away from the PNNA and PNFA and going to Yeni Azerbaijan. Deputies of these parties demanded that the Central Electoral Commission acknowledge the decisions adopted as being in error. Instead, however, the following terse, laconic reply was received: "We have consulted with them." In an effort to avoid dispute, the majority of the parliament hastily acknowledged the Central Electoral Commission report as being satisfactory and turned a deaf ear to the proposal of opposition deputies.

In turn, the Central Electoral Commission, and later the chairman of the Milli Mejlis, accused the opposition of violating articles of the Law on Elections, stating that they had a great many incidents to support the claim. While Rasul Guliyev, chairman of the Milli Mejlis, cast doubt upon the legality of PNNA credentials overall, following which representatives of that party refused to participate in the voting and election of the speaker. During discussion of the matter of election of the Credentials Commission, PNFA and PNNA deputies demanded that the Milli Mejlis afford this commission the right to confirm the legitimacy and legality of credentials and the authority of deputies. But the Milli Mejlis limited the rights of the Credentials Commission to verifying deputy certification.

The final question of the first session of the Milli Mejlis was met with silence by the opposition. Prominent Azerbaijani writer Mutriv Akhmedogly nominated Rasul Guliyev, former speaker of the parliament, to the post of Milli Mejlis chairman. He referred to Guliyev as

the most suitable of candidates to this post and added that he saw in him a professional, a man capable of presenting solutions to economic problems on a high level. Although President Geydar Aliyev did not mention Guliyev's name in his speech to the session prior to election of the speaker, he assessed positively that period of activity of the Milli Mejlis when Guliyev headed it. Support for Guliyev's candidacy resounded in the speeches of deputies of the Yeni Azerbaijan party. While the opposition uttered not one word. Of the 90 deputies participating in the work of the Milli Mejlis, 84 voted for Guliyev and three—against. The People's Front of Azerbaijan party refused all participation in the voting to elect a speaker. Guliyev, a 49-year-old oil magnate, was again elected chairman. Various rumors were spread prior to his election. Many precluded the possibility that he would again be elected, citing disagreements alleged to exist between him and the president. The election of Rasul Guliyev as leader of the parliament shows that he possesses real power, a fact the head of state will be forced to reckon with.

The newly elected speaker believes that very difficult and responsible tasks lie before the new parliament. It is right now, with the beginning of activity of the new parliament, that we mark the outset of Azerbaijan's future development. In the words of Rasul Guliyev, the new parliament will devote special attention to the resolution of economic problems—a task no less complex than the war with Armenia. As Mr. Guliyev noted, the parliament's first- priority task is to adopt new laws facilitating the development of Azerbaijan's economy. He also expressed the confidence that no one else, no one except the present parliament, was in any position to deliver the republic from its crisis state.

What does the opposition think about this? Certain opposition parties, including the PNNA, despite the participation of their representatives and chairman in the work of the parliament, have already issued a statement declaring the current parliament illegitimate and demanding new elections. They also believe the present parliament is incapable of resolving the complex tasks that confront the republic. The speaker termed statements advocating new elections delusions and emphasized that it is precisely this parliament that, together with the president, will be capable of resolving all problems. He predicted that the body would operate until the year 2000.

It is with this kind of optimism and confidence that the first session of the National Assembly of Azerbaijan was concluded. The second session will convene 8 December, when Turkish President Suleyman Demirel is expected to speak. President Demirel will be making an official visit to Baku at this time.

AZAL, Baku-Air Officials on 707 Crash

964F0574A Baku ZERKALO in Russian 2 Dec 95
No 45, pp 1-2

[Interview with O. Aliyev, AZAL state concern deputy director for aviation safety, and Ilgar Ragimov, executive director of Baku-Air airlines, by ZERKALO correspondent A. Babakhanova; place and date not given: "The Boeing-707 Disaster: AZAL and Baku-Air Comment"]

[FBIS Translated Text] According to official reports, a cargo Boeing-707, owned by the private airline Baku-Air, crushed on landing on 30 November. Two crew members were killed in the disaster; the aircraft was destroyed and burned down. Our correspondent asked O. Aliyev, the AZAL state concern's deputy director for aviation safety, and Ilgar Ragimov, executive director of Baku-Air airlines, to comment.

[Aliyev] This cargo plane does not belong to AZAL—it is the property of the private airline Baku-Air. It rents it from some company. AZAL does not have Boeing-707's. The crew was ours, though. Our pilots fly planes for them for a certain remuneration. When the plane was ready to land, its landing wheels would not release. By our rules, in such cases the aircraft must fly low over the landing strip so that those on the ground can see whether the wheels are out. It flew over the strip; our specialists ascertained visually that the wheels are out. The plane was supposed to make a second pass and land. During the turn something happened to the engines. Apparently, the air speed dropped. I do not want to go into details right now—this is a matter for the commission that has been created. The aircraft, if I may put it this way, made a forced landing in a field between the villages of Zabrat and Mashtagi. In such situations the first thing that happens is a fire. As a result of rescue efforts, four crew members were rescued and two died.

[Babakhanova] If it not a secret, who bought this Boeing-707?

[Aliyev] This question should be addressed to Baku-Air airline, not us.

[Babakhanova] But I know that AZAL also bought Boeing-707's.

[Aliyev] We have two of our own Boeing-707's.

[Babakhanova] But you just said that you do not have any Boeing- 707's at all.

[Aliyev] We do not own these planes. Just like Baku-Air, we lease them.

[Babakhanova] From whom?

[Aliyev] I am a wrong person to ask this—I am not a commercial director.

[Babakhanova] You said that these were AZAL's pilots. Did AZAL also service the planes?

[Aliyev] No. Technical maintenance is done by the company that leases them. I would suggest that you direct all these questions to the plane's owner—Baku-Air.

[Babakhanova] To the best of my knowledge, all aircraft operated in Azerbaijan must have operating permits, certificates, and be registered in AZAL, which serves as the national aviation agency.

[Aliyev] If we follow the logic of the republic's Arbitration Court, AZAL is not a government administrative body and does not have the right either to license or to investigate.

[Babakhanova] And in reality?

[Aliyev] In reality, in keeping with its statute, AZAL is a civil aviation agency. It issues a license after a company registers with the Cabinet of Ministers.

[Babakhanova] Was Baku-Air registered?

[Aliyev] That is why I advised you to first ask the Baku-Air management and find out whether the company was registered with the Cabinet of Ministers and whether they obtained a license from AZAL. If they did not register with the Cabinet of Ministers, it means they were not licensed by us.

[Babakhanova] How can they fly then?

[Aliyev] This you will have to ask Baku-Air—on what grounds they operate here.

[Babakhanova] Then I can ask you on what grounds you provide them pilots to enable them to operate.

[Aliyev] This is a different question. You see, pilots can work on a contract with any airline in the world. We do not give them pilots—the pilots work for themselves.

[Babakhanova] But the contract is signed with AZAL, not a specific pilot—is it not?

[Aliyev] I do not know whether there is a contract or not. You came to me to ask about aviation safety. I will answer. But I am not a commercial director. Nobody will answer these questions for you right now. I have committed a serious transgression just by meeting with you before the investigation results are known. Nobody will talk to you on this subject right now. The procuracy has initiated criminal proceedings on this incident.

[Babakhanova] You said that a commission has been created. Will Boeing representatives participate in it?

[Aliyev] Yes, they are arriving today.

[Babakhanova] How many such incidents occurred in 1995 with AZAL planes?

[Aliyev] There has not been a single catastrophe on AZAL flights over the past 27 years, and very few accidents. Ask the traffic police how many cars get into scrapes every day here.

Ilgar Ragimov, Executive Director of Baku-Air Airlines

[Ragimov] First I must express my deepest condolences to the families of the crew members who died. Two crew members died; four were injured. According to the doctors, these four are not in bad shape, but nobody is permitted to visit them right now.

Nobody can tell at this point how this accident happened. Two commissions have been set up. One by AZAL, another by the transportation procuracy. As far as I know, today or tomorrow we expect the arrival of Boeing's commission and the insurance company's commission. After which, I assume, the black box will be opened. Only after that can the cause of the accident be established and who is at fault.

[Babakhanova] There are already rumors that the accident happened because the plane was overloaded.

[Ragimov] I cannot say anything regarding overloading. As the aircraft's owners, we leave that to our customers. According to the contract, our company is not liable for what is loaded onto the plane, in what quantities, and what they transport. According to instructions, the aircraft's loading and transloading is the responsibility of the ground service of the airports where the plane is loaded. The captain and flight engineer the acceptance certificate.

[Babakhanova] In this case, to whom were you leasing this Boeing?

[Ragimov] This flight was chartered by the Meridian company, which transports passenger cargo from Urumchi.

[Babakhanova] We talked today with Aliyev, AZAL's deputy director for aviation safety. In this conversation, he questioned the legality of your activities.

[Ragimov] AZAL has a monopoly on the aviation business in Azerbaijan. The airports and all services belong to AZAL. If we did not have licenses, how would these flights be carried out? Here is our certificate of registration in the Ministry of Finance.

[Babakhanova] Why in the Ministry of Finance?

[Ragimov] Because all joint ventures and enterprises 100 percent owned by foreign capital must be registered in the Ministry of Finance. And Baku-Air is fully owned by a foreign investor. After registering there, we obtained a flight operations license, which is signed by AZAL's general director A. Aliyev. Here is the technical title on this aircraft, which was also issued by AZAL and also signed by A. Aliyev. Attached to it is

the certificate of the aircraft's air-worthiness, which, as required by law, was issued by AZAL. The certificate's number is N AP 170; it was issued on 22 September 1995 and is valid until 7 December of this year.

[Babakhanova] Who do you lease the planes from, and who does the technical maintenance?

[Ragimov] We have this aircraft on lease from the American company ALJ CargoJET. We pay this company for technical maintenance and have a contract with AZAL for ground services. By the way, according to my information, AZAL also leases its two Boeing-707's from this company. The company's technical maintenance group is housed on AZAL's premises. And according to the contract terms, AZAL is obligated to provide one flight crew for us at any time of the day at our request....[end Ragimov]

MKA Azaltur's director S. Fataliyev, who only recently said in our newspaper that the republic's aircraft pool is in very poor condition, refused to comment on the incident, and said only that the Azaltur collective has decided to earmark \$10,000 for the deceased pilots' families and rehabilitation of those injured.

Weekly Roundup of Party Activities

964F0548A Baku ZERKALO in Russian 2 Dec: 95
No 45, p 2

[Unattributed report based on material of ZERKALO and KHABAR- SERVIS]

[FBIS Translated Excerpts] Aypara Aliyev, deputy chairman of the Social Democratic Party of Azerbaijan, senior lecturer at the Azerbaijan Agricultural University, and deputy of the Gyandzha City Council, died at the Baku prison hospital on 25 November following a year of being held in custody on a charge of betrayal of the motherland. The 36-year-old A. Aliyev had been arrested on 7 October, charged with having organized an attempted coup d'etat in Gyandzha. Gastric disease and cirrhosis of the liver, which A. Aliyev contracted in prison, subsequently progressed. On 22 October 1995 the prisoner fell into a coma, in which connection he was transferred from solitary confinement to a correctional-medical institution, where he died.

The constituent conference of the Women's Council of the Alliance for Azerbaijan party has been held. Adelya Bayramova was elected chairman of the new organization.

[Passage omitted]

The results of the parliamentary elections were discussed by the participants in a meeting of activists of the Azerbaijan Democratic Property-Owners Party. Eldar Azizov, first deputy chairman of the party, observed that the ADSP [Azerbaijan Democratic Property-Owners Party] "had achieved the anticipated result, in the main." According to him, "while being the youngest

party that participated in the elections, the ADSP, according to the data of the official authorities, came second in terms of the majority, and fourth, in terms of the proportional, systems of voting at the elections and was in a number of areas of the republic firmly in second place, greatly ahead of the others." The ADSP Political Council will very shortly express its attitude toward the parliamentary elections and the participation in them of the party organizations.

Neymat Panakhly, chairman of the National Statehood of Azerbaijan Party, held a news conference on 28 November, at which he told journalists that the list of deputies elected to parliament coincides 98 percent with the list prepared by the national leadership, which he had made public back on 27 October. "To be honest, I had hoped that, following the disclosure of the list, the authorities would have altered their list at least 5-10 percent, but they spurned the opinion of the international community and their own people and did not consider it necessary to do so. All this is a clear manifestation of the authorities' disregard for the will of the people and an unconcealed violation of their rights," N. Panakhly emphasized. According to the leader of the PNGA [National Statehood of Azerbaijan Party], the national leadership will after the parliamentary elections, on the basis of a plan that has already been worked out, pursue a policy of the political, spiritual, and even physical elimination of those who oppose it and of dissidents generally. N. Panakhly observed that he and his associates and also their families are constantly being subjected to pressure and threats.

[Passage omitted]

Commenting on round two of the parliamentary elections, Ali Kerimov, deputy chairman of the Azerbaijan People's Front Party, declared: "I observed the progress of the ballot in the 9th Pervyy Khatainskiy District, where Zalimkhan Mamedov, our party's representative, was running, and there were no serious violations there, and everyone voted according to the 'one man, one vote' principle." According to him, approximately 30 percent of the electorate turned out in this district, and votes were cast 3:1 for the PNFA [Azerbaijan People's Front Party] candidate. The situation was similar, the deputy chairman of the PNFA reported, in the 10th Vtoroy Khatainskiy District, where Nasib Nasibzade, secretary of the Musavat party, was on the ballot. The deputy chairman of the PNFA believes that the 50 percent quota established by law for the elections to be deemed valid permits the authorities to perpetrate fraud.

Ali Kerimov, deputy chairman of the Azerbaijan People's Front Party, met with Omyur Orkhun, ambassador of Turkey in Azerbaijan. The results of the parliamentary elections were discussed.

[Passage omitted]

Democratic Party Head Views Demirel Visit

964F0548B Baku ZERKALO in Russian 2 Dec 95
No 45, p 5

[Unattributed report based on material of ZERKALO, TREND, and KHABAR-SERVIS]

[FBIS Translated Text] Sardar Dzhahalaglu, chairman of the Democratic Party of Azerbaijan, expressing his opinion of the official visit to Azerbaijan of Turkish President Suleyman Demirel, said: "Reciprocal visits of the heads of state of the two countries have become customary and are important for regulating interstate relations. But the organization of S. Demirel's visit to Baku immediately following the adoption of the new constitution and the parliamentary elections is not fortuitous. According a Turkish media report, the change of name of the official language has caused dissatisfaction in Turkish official circles, and this could influence bilateral relations. It was to take the edge off this issue that the leadership of Azerbaijan invited Suleyman Demirel to Baku. The simultaneous appearance of the Turkish president in the illegally elected National Assembly was conceived as being an effective political move in the business of recognition of the legitimacy of the Azerbaijani Parliament."

Baku, Moscow Caspian Stances Contrasted

964F0562A Yerevan RESPUBLIKA ARMENIYA
in Russian 8 Dec 95 p 1

[Article by Karen Topchyan: "Azerbaijan: The Constitution and the Status of the Caspian: Is a Compromise With Moscow Possible?"]

[FBIS Translated Text] Azerbaijan is continuing the diplomatic confrontation with Moscow, which, Baku officialdom believes, should signify its even further estrangement from its northern neighbor. It is a question, specifically, of the constitution of this country, which was adopted recently, observing that the Azerbaijani sector of the Caspian shall henceforward be considered this country's territory. Now, as Baku analysts believe, following the adoption of the country's new basic law, nonrecognition for Azerbaijan of the right to its sector in the Caspian on the part of Moscow could also hereby be interpreted as an expression of doubt as to the legitimacy of the country's constitution.

But such problems are of no great concern to Moscow itself, it would seem. The Russian Ministry of Foreign Affairs sent Baku a protest note, which expresses disagreement with the corresponding provision of the Constitution of Azerbaijan. And Mikhail Demurin, official spokesmen of Russia's foreign policy department, de-

clared plainly in an interview with BBC Radio: "We proceed from the fact that, according to international law, the Caspian is neither as a whole nor in any component a part of the territory of any Caspian state." Many people in Azerbaijan believe that such forceful expressions of Russian diplomats could have a very inauspicious effect on the competitiveness of the Russian oil company LUKoil. I would recall that LUKoil's share in the first international consortium for the development of the oil fields on the territory of Azerbaijan constitutes 10 percent, and in the second, 32.5 percent. Spokesmen for LUKoil itself in Baku had a very indifferent response to Moscow's demarche. "I cannot be responsible for the Russian Ministry of Foreign Affairs spokesman on this matter," Vladimir Ivanov, leader of the company's Baku office, declared.

As far as the Azerbaijani leadership is concerned, then, according to Foreign Minister Gasan Gasanov, "the difference between the positions of Azerbaijan and Russia is that we are for determination of the status of the Caspian on the basis of international practice, while Russia believes that it should be determined on the basis simply of the desire of one individual country." "Our position," the Azerbaijani minister continues, "is that all lakes that are littoral are divided by the sectoral principle. The lakes between the United States and Canada and France, Switzerland, and Germany and the lakes in Central Africa are such."

Speaking about "the desire of an individual country," Gasanov was undoubtedly referring to Russia. But Moscow also, in turn, appeals to quite telling arguments to substantiate its position concerning the status of the Caspian. According to the Soviet-Iranian treaties of 1921 and 1940 (the sole acts in international law determining the status of this inland sea, incidentally), this is a lake, which cannot be divided into national sectors. Today the position of the Caspian countries is such: Russia, Iran, and Turkmenistan cleave to the "lake" viewpoint, that is, advocate joint use of the Caspian. Azerbaijan and, to some extent, Kazakhstan are for it being considered a sea, that is, its division into national sectors. So it is still too early to speak about total clarity as regards the production of Azerbaijani oil and its transportation to West Europe even more. LUKoil's participation in the oil projects by no means testifies to Russia's recognition for Azerbaijan of the right to "dominion" off its shores. Moscow is proposing either the creation of a joint body of the five Caspian states, which would issue licenses for oil production, or a joint Caspian company. Whatever the case, according to Albert Chernyshev, deputy minister of foreign affairs of Russia, "there is as yet no final version, and the way toward it will lie, in any event, via a series of compromises among the Caspian states." But the whole question is how far Baku and Moscow are really disposed toward mutual concessions.

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